REPORT ON

AGRICULTURAL CREDIT

BY

H. M. TORY

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The Honourable James A. Robb,
Acting Minister of Finance,
Ottawa, Ont.

Sir,—I have the honour of presenting, herewith, the report on Agricultural Credit, which I was asked to prepare by the Right Honourable W. S. Fielding for the Department of Finance.

Your obedient servant,

H. M. TORY,
President of the University of Alberta.
Administrative Chairman of the Honorary Advisory Council for Scientific and Industrial Research.

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INTRODUCTION

On the authority of a letter from the Minister of Finance, dated August 23, 1923, I undertook to make an enquiry into the subject of Rural Credits. The above mentioned letter intimated that the enquiry should be along the lines suggested in the Report of the Special Committee appointed to enquire into Agricultural Conditions, dated January 19, 1923. The report is as follows:—

"As to the necessity of credit on more advantageous terms to the farmers of this country, there can be little room for difference of opinion. Well selected and secured farm loans should be among the safest and most attractive of investments, while the security offered through the pledging of non-perishable and readily marketable farm products is certainly comparable to that offered by merchants and manufacturers. Notwithstanding these facts, the agriculturist of Canada, in certain parts at least, pays considerably more for long term credits secured by his property than many of his competitors in other lands as well as more than is paid by many of his fellow citizens in other walks of life for similar accommodation.

"Your committee are of the opinion that after consideration along the lines hereinafter respectfully suggested, the Government should promote the obtaining by agriculturists of this country of long term credits, as well as intermediate credits, and that action should be taken, and, if necessary, legislation enacted to this end at the earliest possible date.

"The attention of your committee has been forcibly brought to the fact that the operations of the Federal Farm Loan Board system in the United States offer, through the National Farm Loan Associations, the Federal Land Banks and the Joint Stock Land Banks, facilities for long term credits to the farmers of that country, which when prudently availed of, are of immense advantage to them. Likewise, it would appear that the farmers of certain European countries, as well as of other parts of the commonwealth of British nations, enjoy credit facilities of an advantageous nature.

"The Federal Farm Loan Board system, operating through the Federal Intermediate Credit Banks and the Agricultural Credit Corporations in the United States, is designed to supply to a very large extent, to agriculturists, intermediate credits, that is to say, credits running from nine months to three years.

"It will be remembered that there are at present operating in Canada certain provincial systems. As to the success of some of these, serious differences of opinions have been expressed. It would appear that some are suffering from inadequate loaning funds.

"To what extent the Federal Government should inaugurate a federal system of long term and intermediate term loans to farmers; how such system, if inaugurated should be related to the different provincial systems; what features of, or other systems of, farm credits could, with advantage, be adopted, are all matters requiring further searching investigation.

"Your committee have heard a number of witnesses and have devoted a considerable amount of study to the question. They feel, however, that the system is of such paramount importance that further investigation and study should take place before definite legislation is brought down.

All authorities apparently agree that there is a barren area of credit unsupplied by either the banks on the one hand or the loan companies on the other.

"We, therefore, recommend the investigation by the Government into the question of long term and intermediate term rural credits; the operation of existing schemes in Canada, the United States and elsewhere; the examination of the question as to whether and to what extent systems of agricultural credits should be fitted into and related to our present banking system; as well as the operations of mortgage and loan companies; and that to this end, and in such manner as may appear best to the Government, the views of agriculturists, bankers, representatives of loan companies, officers of the present Canadian provincial loan system, as well as of the officers of the Federal Farm Loan Systems in the United States, should be obtained, in order that adaquate and well-founded action for the relief of the present situation may be taken.

"In this connection also, the attention of your committee was drawn to the question as to whether it would be advisable and in accordance with sound economic and banking principles to extend to those provinces which desired to obtain money for their rural credit systems, facilities for obtaining of credit such as are afforded to the chartered banks under the provisions of the Finance Act of 1914, under the provisions of which Dominion notes are issued to the banks against the deposit of certain approved securities with the Treasury Board."

Taking, therefore, the report of the Special Committee as a basis for the enquiry, the procedure in obtaining information was as follows:—

First, all the documents, legal enactments and reports of the Dominion Government and the Provincial Governments, not already in my possession, were obtained and studied. Following this the central provinces, Alberta, Saskatchewan, Manitoba and Ontario were visited, and the schemes in actual operation were gone into with the officials responsible for their administration. Wherever possible ministers of Provincial Governments were consulted, especially those having already had experience in the creation or the working of legislative enactments. The province of British Columbia and the Maritime Provinces have not yet been visited as time did not permit, but the laws in operation and the reports of the provinces have been studied.

In order to get first-hand information of the condition of affairs in the United States of America, some time was spent in the offices of the Farm Loan Board in Washington, under whose supervision both the Federal Land Banks and the Intermediate Credit Banks are functioning. Through the offices of this Board the fullest information was made available to me both by means of documentary evidence and personal interviews with those responsible for the administration of the affairs of these great organizations.

Further, letters of introduction were given me to the presidents of the Federal Land Banks in all the centres of the country where they now operate. I was able by visiting some of these centres to get information on the actual working of their plans in the most intimate way.

In selecting points for detailed study, banks operating in parts of the country bordering on Canada, the problems of which would be similar to our own, were selected. These were the Land Bank of Springfield, Mass., which operates in the states of Maine, New Hampshire, Vermont, Massachusetts and northern New York and the Bank at St. Paul, the operation of which covers northern Michigan, Wisconsin, Minnesota, North Dakota and Montana. The Bank at Baltimore was also visited and studied intimately as presenting somewhat contrasting conditions to the others

At this point I wish to express my grateful appreciation for the generous treatment accorded me by all the officials of the organizations in the United States and especially to Commissioner Cooper of the Farm Loan Board at Washington, through whose kindness the doors of the organizations all over the country were opened to me.

A good deal of documentary evidence was collected first hand at the centres visited. Many of the foreign documents were made available through the kindness of Mr. Doherty, of the International Institute of Agriculture, Ottawa, while valuable assistance in the same way was given by Mr. Lynch, of the Department of the Interior.

The problems involved in the enquiry were also discussed with bank managers in the United States and Canada, as well as with managers of loan companies and insurance companies in both Eastern and Western Canada.

In addition to the information thus obtained, I drew upon the evidence which I collected when in Europe in 1913 with the American Commission, and the reports which grew out of the work of the commission. As far as possible, documents have been obtained showing the recent trend of rural credit organization in Europe and in Great Britain. Documents have also been obtained from New Zealand, Australia, South Africa and South American countries where systems of rural credits are already in existence. So far as the time at my disposal would permit, I have tried to cover the field of the practical application of rural credit principles, as distinguished from mere theorizing about the matter.

One further word by way of explanation. The usual method of holding public sessions of enquiry has not been followed. The facts collected were from responsible people whose statements were substantiated by documents, legislative enactments and official reports. Many expressions of opinion were received by letter and from individuals personally. These opinions, however extreme, have been duly considered and carefully weighed.

In what follows a precise presentation of the facts gathered is attempted. Technical terms and statistical information have been avoided, unless considered absolutely necessary for a proper understanding of the issues involved. In the interest of clearness the report is divided into six sections as follows:—

Section I—General Considerations.

Section II—Rural Credit in Europe.

Section III—Rural Credit in the British Empire, outside Canada—

- (*a*) Great Britain.
- (*b*) Australia.
- (*c*) South Africa.
- (*d*) New Zealand.

Section IV—Rural Credit in the United States.

Section V—Rural Credit in Canada.

Section VI—Consideration of Methods in Relation to Canadian Conditions.

I have tried to make every section of the report complete in itself, so that, after reading section 1, those interested in the study of the special problems of the individual country may do so without reference to other parts.

It is hardly necessary to point out that the movement for Rural Credits on this continent is not an incident in the history of an individual country, but is part of a movement covering the whole civilized world, and would appear to be a normal development growing out of the conditions of modern agriculture.

SECTION I

GENERAL CONSIDERATIONS

The terms Rural Credit, Short Term Credit, Long Term Credit, and Intermediate Credit, require definition as they are used ambiguously in much of the current literature in which the terms occur.

The term "*Rural Credit*" is used in both Europe and America in a general sense to include all forms of credit which have to do with the production and distribution of farm crops. It will be used always with that meaning in this report.

The term "*Short Term Credit*" has a different meaning in Europe from that which it has in the United States. In Europe it means all forms of credit in relation to agriculture other than mortgage credit and in which the security is personal or easily negotiable collateral. In the United States the term is used generally in reference to ordinary banking transactions of from three to six months. In Canada it is used in the same sense, except in legal documents referring to Rural Credits where its meaning is the European one. When discussing European methods, therefore, it will be necessary to use the word with the European meaning as comprehensive of the two American terms, "Short Term Credit" and "Intermediate Credit." In discussing Canadian documents it will be necessary, in order to avoid confusion, to define the term when used.

The term "*Long Term Credit*" is everywhere used to mean mortgage credit and in relation to agriculture, farm mortgage credit for terms of five years or over. The only exception is in France where a special meaning is given by the use of the terms "Long Term Collective Credit" and "Long Term Personal Credit." The context, however, will be found to give sufficient explanation in these cases.

The term "*Intermediate Credit*" is always used to mean credit for a period longer than the ordinary banking transaction of from three to six months, and yet shorter than the ordinary mortgage term. The period may vary from six months to five years. The security is non-perishable farm commodities or stock security but is not based on land mortgage. As worked out in the United States where the term is now official, it is a banking operation but done through a bank specially regulated to cover the longer term stated above. In this sense only will the word be used.

The problem which the Rural Credit organizations seek to solve is how to safeguard and promote the economic interest of those engaged in agricultural pursuits, especially by providing them with such facilities for obtaining credit that they may be able to acquire the means of production and to dispose of their produce on such favourable terms as to make farming a profitable enterprise.

One great reason why all countries have found it necessary to solve in some measure this problem is that agriculture is everywhere regarded as the fundamental industry, which if not prosperous reflects its lack of prosperity on every other national activity. This is especially true of all those countries which seek to become even approximately self-supporting.

In order to make possible the instruments of production to those whose only capital is the land, the Long Term or Mortgage Credit systems arose. To make possible the seasonal operations by means of which production and disposal could be profitably undertaken, the Short Term and Intermediate Credit systems came into being.

The aims of the Long Term or Mortgage Credit systems, so far as they relate to agriculture, are:—

1. To free the landowner from the necessity of borrowing directly from the individual creditor.

2. To regulate the payment of interest and principal so as to free the borrower from the danger and anxiety associated with demands for repayment under circumstances which made payment impossible.

3. To get rid of usurious rates of interest, putting agriculture in this regard on the same basis as other business equally secure.

From the effort to meet these conditions arose—

1. Land mortgage bonds.
2. Amortization, the repayment of the principal with the interest at a fixed rate over a series of years.
3. Co-operative land mortgage credit, the combining of the security of the many to secure a reduction in the rate of interest.

The reasons advanced in favour of the land mortgage bond are briefly as follows:—

1. It makes possible the long term mortgage, otherwise impossible, as the individual money lender would not as a rule be willing to take a mortgage for a term of fifteen or twenty or thirty years. This can be done by the creation of a corporate body, the Land Bank, whose existence does not terminate with the death of the individual.

2. It places between the lender and the borrower an intermediary whose business it is to safeguard the loan and whose security is unquestioned.

3. It makes a more flexible arrangement for the lender, as his bonds are always available for sale in case of need or as collateral security of a high order, if desired.

4. It makes possible the use of the amortization principle, that is the repayment of the principal of the debt by means of small annual instalments along with the interest, the payment of principal and interest alike coming out of the annual proceeds of the land.

5. It recognizes also the fact that the mortgage is to be redeemed by production from the land, thus establishing the security on a rational basis. The mortgage is not strictly a real estate mortgage otherwise.

6. It allows that combination of security which makes low rates of interest possible, if correct principles are followed. In so doing it establishes a reasonable limit for a mortgage and thus protects both borrower and lender.

7. If the fixed capital is raised in this way, free from personal or other kind of guarantee, it leaves the total remaining assets of the farmer free as security for his seasonal requirements for immediate production. This can be used with the ordinary bank or through the special banks at the will of the borrower.

The aims of the Short Term Credit systems as they exist in Europe and the Intermediate Credit system as it exists in the United States are:

1. To give to the agriculturist a credit system suited to the seasonal requirements of his occupation.

2. To secure for him rates of interest for this requirement consistent with the security of his business.

With regard to the first of these aims, it is claimed everywhere by those who advocate such credit systems that the ordinary banks are not organized to meet in a normal way the claims of agriculture. It is not necessary in this report to go over the arguments advanced, as they are quite well known. Briefly it amounts to this.

The farmer's business does not usually give him a quick return. His period of investment is at least nine months or a year as he has to await the processes of nature to give him his dividends. He is subject to losses by accident, disease and fluctuations in prices, causes over which he has no control and which make special financial arrangements necessary often covering a period considerably longer than that required to produce his yearly crop. Short Term Credit of three months even with the right of renewal is to him both inconvenient and embarrassing, as although renewal may be promised the difficulty in obtaining it is much greater if crop difficulties in the meantime have arisen. Further, the ordinary commercial banks, organized especially to suit commercial and industrial conditions, to a large extent fail to appreciate the position of the farmer, who, because of his inability to meet specific banking practises, finds himself, particularly if he is a small farmer, regarded as an undesirable customer, not because of any fault of his own, but because he is unable to marshal his assets in a manner to satisfy the bank. Hence the claim that a special financial organization with a different purpose from that of the ordinary bank is required.

With regard to the second aim mentioned above, the difficulty to be overcome arises naturally out of the conditions just stated. If the ordinary commercial bank is incapable of meeting legitimately the farmer's needs, then he must either do without working capital or resort to some other means of obtaining it. To do without renders him helpless, unless he has already acquired a surplus of his own. The only other sources open to him are the private money lender or the local merchant through whom he may buy his supplies. In either case, while the credit may be obtained for the length of time required, the cost is very great, often too great in proportion to his productive capacity. The private money lender is often more hard-hearted than the banker, while the local dealer's credit is generally the most expensive of all. The latter usually considers it necessary to protect himself against loss by increasing the price of his goods, if sold on credit or by charging a higher rate of interest, if he advances money.

The Short Term Credit Banks of Europe, the Intermediate Credit Banks of the United States and a great variety of state supported financial organizations in other civilized countries have sought to overcome the difficulties stated above by organizing the security of the farmer on a co-operative or semi-co-operative basis in such a way as to make possible credit at reasonable rates of interest and for a length of time suited to his needs.

The foregoing is not to be interpreted as an argument but as an effort to state in the briefest possible way the point of view and purpose of the Rural Credit movement. The extent to which these organizations have succeeded will be apparent later on in this report.

SECTION II

RURAL CREDIT IN EUROPE

One of the outstanding facts about modern Europe is the number and variety of its financial institutions. Private, public and co-operative organizations have grown up everywhere, often with a view to meet special needs or to solve special financial problems. In every country the ordinary joint stock bank is, of course, to be found. Side by side with these are to be found savings banks working under definite restriction; rural banks specially suited to do business with the rural communities; public utility banks, that is banks doing a non-profit-making business; land mortgage banks whose activities are often confined to land mortgage business or to credit based on land mortgages; general joint stock loan companies; state banks doing business on a profit-making basis in the interest of the State; and finally co-operative banks specially regulated to assist and stimulate co-operative institutions.

Institutions of all of the above mentioned types give consideration to the problems of agriculture and make loans on the basis of farm land security. I shall discuss, however, the agricultural credit institutions only; that is, institutions whose function is to deal with problems of agriculture specifically and whose aim is to give the agriculturist money at rates of interest in relation to the security offered. These institutions give to the farmer the advantage of their knowledge of the value of his security and have resulted in establishing agricultural credit on what is regarded as a rational basis. As a consequence of their operation the small farmer has been taken out of the hands of the usurers, whose rates of interest fifty years ago ranged from ten per cent to fifty per cent, and has been made the cheapest borrower in the country. These institutions have done more than this. They have had a regulating influence on the rate of interest charged by all the other financial institutions doing business with the farmer. As an illustration, one might take the position of the Land Mortgage Credit Associations or the Landschaften in Germany. At the end of 1912, the financial institutions in Germany lending money on mortgages had invested about $6,500,000,000 in various types of mortgage security. Of this amount over $2,000,000,000 was in farm mortgages. Of this latter amount the Landschaften held $850,000,000, about 13 per cent of the whole, or about 40 per cent of that invested in farm mortgages. The rate of interest, however, was practically that fixed by the Landschaften. The above figures stood practically unchanged in 1920. In this section of the report attention is devoted to a description of those institutions whose special aim is to facilitate agricultural credit, dealing with those of a co-operative or state-aided type, or a combination of both.

Studied with respect to their purpose, these institutions fall under two general heads:—

1. Those giving Long Term or Mortgage Credit.
2. Those giving Short Term or Personal Credit.

1. Long Term or Mortgage Credit

Of the institutions giving Long Term or Mortgage Credit the following are the most important and will be described in some detail:—

(1) The German Landschaften or Land Mortgage Credit Associations.
(2) The German Mortgage Credit Banks.

(3) The German Savings Banks.
(4) The Crédit Foncier of France.
(5) The Co-operative Mortgage Credit Banks of Denmark.
(6) Institutions in other Countries of Europe.

Similar institutions found in other parts of Europe which have a local application or which are varieties of one or the other of the above will be referred to only when by so doing points of special significance make it necessary.

(1) The German Landschaften or Land Mortgage Credit Associations

The German Landschaften or Land Mortgage Credit Associations were called into being at a time so like our own, so far as the difficulties of the agriculturist are concerned, that to quote from the discussion of the time seems like reading current literature on the subject. They had their origin in the period following the Seven Years' War (1755-1763). The land owners who belonged largely to the nobility and who had depending on them the peasant population found themselves in great difficulties. "Agriculture was in a disastrous state: fields lay untilled, dwelling-houses had been destroyed by fire, cattle had perished. The landowners lacked the means to carry out any reconstruction inasmuch as their credit was no longer good and the difficulties in the way of procuring necessary capital were very great. Interest was not paid punctually, debts were not discharged, mortgages were foreclosed and insolvency resulted. The confidence of investors in respect to the landowners was completely shaken. Many mortgage loans were withdrawn. The owners ran the risk of losing a considerable portion of their property." In 1759 a moratorium was declared. This was revived six years later. "But this moratorium merely acted as a palliative as soon as it ceased to be operative, the deficiency of credit made itself felt with landed proprietors in a still more aggravated form. Many estates were sold by auction. In addition, there was the circumstance that the price of cereals, very high during the war, fell sharply after the peace, and besides the export of wool was forbidden on pain of death. This meant that even where it had been possible to keep up farms or to restore them to working order the owners were plunged in difficulties. Credit could only be obtained from private individuals, at a high rate of interest, since there were at the time no institutions that could act as intermediaries between landowners seeking credit and capitalists seeking investment for their money." Such were the circumstances which led to the devising of the first land mortgage scheme in Europe. The landowners of the Prussia of that day were very much in the position of those in Western North America to-day. They had land in abundance but money was scarce and hard to get. Interest charges were abnormal and ruin stared many of them in the face.

Within a very short time after the establishment of the Landschaft, the following statement from a report to the King indicates the change that had taken place. "Thanks to the most benevolent support of your Majesty the credit of the Landschaft is now in an extremely satisfactory state. A remarkable number of families who for want of money and credit were on the brink of ruin and are now in a secure position and thoroughly rehabilitated and will in consequence ever cherish admiration and reverence for your Majesty."

The credit for the scheme belongs to Buhring, a Berlin merchant. He presented his scheme to Frederick The Great in 1765.

The general idea of the scheme was that the land represented the best conceivable security, if there could be created by some sound system a quotable security, that is if the real value of the land could be made a basis for a sound negotiable security it would cause money to flow again freely into the required

channels. In order to realize his scheme he advised that there be created with the approval of the state authorities a credit association (landschaft) by persons in need of credit, which on the basis of mortgages issued in its favour would issue mortgage bonds bearing interest payable to bearer. In this way, the liability of the individual would not be direct to the investor, the bonds being guaranteed by the central authority.

The actual scheme as put into operation in 1770 was a modification of this suggestion. The fundamental idea, that of placing an intermediary, the credit association, between the individual borrower and the investor remained as a foundation stone of the whole structure.

As it stands to-day the Landschaft is an association of borrowers for the purpose of securing loans by the issue of bonds secured by mortgages registered collectively against their properties. The bonds are not chargeable against any individual mortgage but against the mortgages taken together. For this borrowing, the landowner is debtor to the association and the association is debtor to the investor. The borrower pays interest to the association, and the association to the investor.

The bondholders are secured in the following manner:—

(*a*) Mortgages must not be granted beyond two-thirds of the value of the land. The valuation is fixed after careful appraisement by independent officials, the basis being the annual productive capacity of the land as shown by experience.

(*b*) Bonds must not be issued in excess of the total amount of the mortgages bearing equal interest.

(*c*) The amount of debt is being constantly reduced by amortization at least until a certain definite portion is paid off.

(*d*) The organizations themselves are non-profit-seeking, and possess no share capital upon which profits are paid.

(*e*) The bonds are secured not only by total mortgages of the association, but also by its reserves and the accumulated sinking fund payment of mortgages.

(*f*) Finally, should all other sources fail the incorporated landowners are responsible in some cases to full value of their property, in others to a given limited liability.

These associations are public corporations and are under state supervision. This supervision is exercised by a Royal Commission and the articles of the Credit Association and the regulations must be sanctioned by the Government, much as our railroad companies are in Canada. They possess certain special privileges. One of the permanent officials must have passed the State examination qualifying him for the office of judge so that they are permitted to distrain without having recourse to ordinary civil procedure. Within the limits mentioned above they are autonomous and manage their affairs on the principle of self-government. The employees have the standing of state officials. It cannot be over-emphasized that these associations are associations of borrowers, not lenders; their aim is to save money for their members, not make money for others. Apart from paying interest on bonds, they have no relation to the investor who buys his bonds on the market in the usual way. The landowner becomes a member of the Credit Association when it acquires a mortgage on his land and ceases to be a member when his mortgage has been paid off, so that no pressure for dividends enters into the conduct of the business.

The special merits of these associations are summerized by Mr. J. R. Cahill in his excellent report for the British Government in the following terms:

(1) They enable landowners to mobilize, as it were, their landed possessions by the creation of bonds passing into the general system of securities; instead

of only being able, like English landowners to provide a mortgage security of very restricted currency, German landowners have the advantage of being able to convert a mortgage charge into a security realizable at any time in the general market.

(2) Loans granted are not subject to recall.

(3) The rate of interest is as moderate as possible, being closely related to the prevailing market rates for money.

(4) The bonds being irredeemable by the holder, the rate of interest may not be raised.

(5) The right is conceded to reduce the debt by payments made at the mortgagor's convenience.

(6) The necessary extinction of the capital debt is accomplished gradually.

(7) The costs for valuation and other charges are low.

(8) Their administration is at once relatively inexpensive and their office holders highly qualified for their work.

Of these associations there are twenty-three in Germany having a total of outstanding loans in 1920 of 3,255,000,000 marks equal at par to about $850,-000,000. The average pre-war interest was about 4 per cent. That is 4 per cent bonds were selling at par in 1914. These bonds have always maintained a strong position in the market. At the time of the Napoleonic Wars when Prussian four per cents were quoted at twenty, the land bonds never fell below fifty. In 1920, the Central Landschaft four per cent bonds were quoted at one hundred, while in certain of the provinces they were above par. These facts show how firm a hold, after one hundred and fifty years of experience, these securities have on the investing public in Germany.

(2) The German Mortgage Credit Banks

The Mortgage Credit Banks, of which there are sixteen in Germany, are all established under the guarantee of some public authority, either a State, a Province, or a District within a Province. While not restricting their operations to farm mortgages, they all do a large farm mortgage business. They had in 1913 a total of outstanding loans of $500,000,000, one half of which is in land mortgages, the other half being to local municipal or communal authorities. The funds of these institutions are obtained,—

(a) By the issue of bonds guaranteed by State, Province or District in which it operates. These are recognized by law as trustee securities.

(b) By deposits.

(c) By grants or loans from the State or authority concerned.

(d) Payments by borrowers into sinking fund account.

(e) Accumulated funds.

These banks were specially designed to serve the needs of the medium or small landowner to whom loans are made at moderate rates of interest, on an amortization plan and not subject to recall.

These banks are usually managed by a special committee in some cases appointed by the State, in others either wholly or partially by the Assembly or Council of the public authority guaranteeing the liabilities of the bank. They are, strictly speaking, public institutions. Any profits accruing from the operation go to the guaranteeing authority.

I have not been able to obtain information of the standing to-day of these institutions. In normal times, they were functioning greatly to the advantage of the guaranteeing authority and to the borrowers, mostly small farmers and communal organizations.

(3) The German Savings Bank

The German Savings Banks are mortgage credit institutions of very great importance to farmers. Their total investments in farm mortgages in 1913 were about $850,000,000. In some parts of Germany they were the chief source of mortgage credit for the small farmer. Most of these institutions are public savings banks, established, managed and guaranteed by the public authority. In 1913 there were 2,844 public savings banks of this type in Germany with 7,404 branches.

The deposits in these banks reached the sum of over $4,000,000,000.

These institutions, being usually under local control and management and not subject to central control are allowed to fix a rate of interest to suit their own convenience.

The result is they pay comparatively high interest on deposits, as high as four per cent. There is no combine to fix rates paid on deposits. The result is the savings of the district go to the banks and loans are made to those people living in the same district. The guarantee of the District Authority makes them absolutely safe.

The charges made on loans are also slightly higher than in the case of the Landschaften.

Of the total deposits of over $4,000,000,000 in 1913, over $2,500,000,000 was invested in mortgages, of which $850,000,000 was invested in farm mortgages. The exchange in all the figures in this report is based on gold values of the coinages used.

These institutions are of such great importance in connection with agricultural credit that the following brief statement concerning them, taken from the report of Mr. Cahill, will not be without interest:—

> "The earliest German savings banks were founded to serve as institutions for safeguarding the poorer classes against absolute poverty by providing a place for the safe deposit of small sums of money until such should be required in bad times. Established in connection with the efforts to reform the poor laws they were regarded rather as philanthropic institutions. But the savings banks lost this character of philanthropy early in the nineteenth century, and have developed along the more general lines of institutions for the furtherance of thrift. They have been established usually by and under the guarantee of public authorities; and in normal cases do not aim at profits beyond the obtaining of an adequate interest upon money deposited with them and the payment of the expenses of management. Any surpluses remaining after paying these charges and making suitable appropriations to reserve are applied to objects of public welfare. In primary aim they are distinguishable from banks in the ordinary sense of the term; they seek deposits, not in order to be in a position to grant credit for their own profit, but to foster thrift, and only to utilize deposits for investments in the interests of the depositors themselves. But while there is this distinction in their aims, German savings banks constitute, by reason of their un-exampled development and freedom of investment credit sources of great importance. Not being obliged to deposit their funds at interest with the State Treasury, or invest in stocks and shares only as such banks are constrained to do in some other countries, but seeking to obtain on investments the best returns consistent with the absolute security of their funds, they have lent a very large percentage of their deposits on mortgages, a considerable proportion of which have been on rural property."

The special advantage of these banks is that they provide farmers with a public mortgage institution in their immediate vicinity and facilitate personal relations between borrower and lender. Its local character and the knowledge its officers possess of the conditions of the borrowers makes it possible to dispense with costs in obtaining a loan, especially that caused by a special valuation. The disadvantages are higher rates of interest, liability of rates of interest to rise or of recall of loan and the limited facilities for reducing mortgages.

The German Mortgage Credit Banks and the Savings Banks correspond somewhat to what is now being done in Ontario and Manitoba through the public credit institutions.

(4) The Crédit Foncier of France

Mortgage credit in France is provided through the agency of the Crédit Foncier, a Land Credit Bank established in 1852 for that purpose. It is a joint stock institution subject to legislative control by the French Government.

When organized the Crédit Foncier was given a monopoly for a period of twenty-five years on all land credit business over a large portion of France. The monopoly was later extended to the whole country. The period expired in 1877 but no new competing organization has yet been established, so that land credit still remains a monopoly in France.

The following article of the constitution shows the scheme of capitalization and the relation of normal capital to loans:—

> "The Society's capital is fixed at 200,000,000 francs. It is designed as a guarantee of the society's obligations and especially of the land (mortgages) and commercial obligation.
>
> "It shall be divided into 400,000 shares of 500 francs each, entirely paid up.
>
> "The amount of the normal capital of the shares shall be maintained in the proportion of one-twentieth at least of the capital realized by the issue of bonds in circulation."

The capital has since been permitted to be raised to 250,000,000 francs on condition that loans are made in like proportion. Originally the government subsidized the society to the extent of 10,000,000 francs.

It will be seen that this system in its organization differs from the Landschaft, in that it is a joint stock organization doing business for profit; the rate of interest, however, is controlled by the Government and must not exceed the rate of interest on the bonds by more than six-tenths of one per cent. As we shall see the Joint Stock Land Bank which forms a part of the system existing in the United States under the Federal Farm Loan Board, corresponds somewhat to the Crédit Foncier in that the capital may be subscribed by private investors; the interest is regulated by law; and the twenty to one ratio of capital to loans is also fixed:—

The Crédit Foncier grants loans:—

(*a*) On mortgage security,

(*b*) To municipalities.

Mortgage loans are made on the security of houses and town property and on agricultural land.

These loans are made in one of the following forms:—

(*a*) Short term loan on mortgage, not to exceed nine years, not repayable by amortization and not repayable till the end of the term. The present rate of interest on these loans is approximately 5%.

(*b*) Long term loans, which run from ten to seventy years; repayable by amortization or at the pleasure of the borrower. The rate of interest at present on these loans is, including amortization, approximately 5%. Such loans are made for a maximum of not more than one-half the value of the property mortgaged. In the case of vine-yards, it is only one-third.

(*c*) Current account loans on mortgage guarantee by opening what is called a mortgage line of credit. The rate on these loans is about one-third higher than that on ordinary mortgages, and the loan is repayable in six months.

In addition to the loans made on mortgages, loans are made to municipalities and public institutions. The rate of interest on these loans is less than on either of the foregoing. These loans are made for a period of from one to nine years.

Since its origin in 1852, the Crédit Foncier has loaned more than 9,000,000,000 francs, and, in 1913, had outstanding 5,000,000,000, the full amount allowed under its capitalization. An additional capitalization may have been permitted since this information was obtained. More than half the loans are in mortgages.

The share capital of the bank was created to give security to the land mortgage operations. All mortgage loans are covered by the issue of bonds, which are sold in the open markets of the country. The borrower is paid in cash at current price of bonds. *The bonds are not guaranteed by the Government.* They are repayable in a maximum of seventy-five years.

The feature worthy of special attention, is that the Crédit Foncier provides both the Short Term and Long Term Credit. A mortgage credit being established by a property valuation for any client, money can be borrowed against this, interest being charged only on the money advanced. This is a feature not found in Germany nor is it copied in the system now in operation in the United States. The Crédit Foncier thus in a measure serves the purpose for certain clients of both long term and short term credit bank. The Crédit Foncier is allowed to take deposits from its clients. *It is also permitted, in default of payment of interest and amortization to sell without notice and without civil procedure in the courts, as in the Landschaften.*

(5) The Co-operative Mortgage Banks of Denmark

The Co-operative Mortgage Banks of Denmark are fashioned after the German Landschaften and do not therefore demand a lengthy description.

A mortgage bank in Denmark is a credit association composed of landed proprietors (from the Danish speaking provinces) founded by the sanction of the King with a view to making it easier for its members to borrow money upon easy terms upon the mortgage of their estates and by degrees to repay the sum borrowed. Only borrowers are admitted to the association. The borrower becomes a member when he delivers to the cashier of the association a mortgage upon his property and receives his loan in the shape of debentures of the association. The bonds are then sold to anyone who may wish to buy. The relationship is specifically defined by regulations in conformity with which the loan is made. The security for the principal and interest of the mortgage bond is the sum total of all the mortgages effected by the association.

Bondholders may have their bonds cashed on giving six months' notice. Should the demand, however, exceed the amount at the disposal of the bank through its sinking and reserve fund, the bondholder must wait until payments become due from the mortgages. When a bondholder gives notice of his desire to cash his bond, he is notified the date he can secure payment. Mortgages

are paid by an amortization scheme in forty-seven years, the amortization being three-quarters of one per cent of the loan annually. Payment of a larger amount may be made at the regular payment date, should the mortgagor desire it. Should the sinking fund thus formed exceed the bonds presented for cash at any given time, a drawing is made for other bonds to be redeemed.

The members of the association may borrow up to three-fourths of the value of the property and must pay four per cent interest on mortgages, three-quarters per cent amortization and one-quarter per cent for expenses, making altogether 5 per cent. The value of the property is based directly on the revenue which the borrower can show as accruing annually to him from the property.

The association is managed either directly by the members through a general meeting or by a board of directors chosen by a general meeting. The general meeting is held at least once a year. Full details of their methods are available if desired.

There are 14 associations of the Landschaft type in Denmark doing first mortgage business and 9 for second mortgages on small estates. The latter are the only ones of their kind in Europe.

(6) Institutions in other Countries of Europe

In nearly all other countries in Europe facilities exist in some form for mortgage credit based either on the German or French model. In HOLLAND the government authorized the creation of Joint Stock Mortgage Banks for the purpose of affiliating the small savings organizations which had arisen in the villages and country places and were doing mortgage credit. They were not subsidized by the government and found their money for loans out of the savings deposited in the small village banks which affiliated with them. Mortgages are issued for forty years on an amortization plan.

In AUSTRIA in pre-war days, the mortgage credit business was mainly in the hands of the savings banks. Of these six hundred and sixty-nine were in operation in 1914, mostly in towns and cities. At that date these banks had invested in mortgages 3,700,000,000 crowns, about 55 per cent in agricultural property.

Institutions based on the German Landschaften also prevailed and were rapidly growing in 1914.

In HUNGARY, a system of state-supported though not state-owned institutions exist. Mortgage bonds are issued against mortgages in the usual way. In 1911, $500,000,000 worth of such bonds were in circulation, redeemable under definite regulations. Many of them had been sold in France.

In ITALY, a great number of institutions do agricultural long term mortgage business. Land Credit Institutions, Land Credit Banks, Savings Banks and Mutual Societies all exist for the purpose. They grant loans on first mortgages on a fifty per cent valuation. The amortization period is ten to fifty years. The annual payments include (*a*) Interest, (*b*) Amortization instalments, (*c*) Income tax, (*d*) Commission and management expense, (*e*) Revenue and stamp duties. Bonds are sold, where possible, against the total security of mortgages held.

In SWEDEN, there are ten distinct land mortgage associations of the Landschaften type created by authority of the Government. These have a monopoly of the land mortgage business. For these there is a central institution known as the Swedish General Mortgage Bank which advances money to the district associations upon the assignment of mortgages taken from the members of the associations. Members of each association are jointly and severally liable for all loans made. The central bank is a semi-public institution closely associated with the government and enjoys a monopoly.

With regard to the security of the land mortgage systems described, it may be said that the land mortgage bonds are everywhere regarded as the safest kind of security available for both large and small investors. The payment of interest and principle is assured by strict government supervision which prevents over-issue and which sees that all repayments made by borrowers are reserved for repayment of bonds. Their record of accomplishment is so high that money sufficient for their needs flows freely into their treasury.

2. Short Term or Personal Credit in Europe

The expression "Short Term or Personal Credit" is used everywhere in Europe to include all types of agricultural credit other than mortgage credit. This form of credit is based mainly on the security of the borrower as indicated by his general standing in his community and on his personal assets apart from land.

Only such institutions as devote their attention mainly to agriculture will be discussed. The ordinary commercial institutions, joint stock banks and savings banks therefore will not come under review, except as they are part of an agricultural credit system.

Under the section devoted to general observations I have set forth briefly the reasons advanced for the development of the institutions herein described. I quote here only one short paragraph from a document which was prepared by a distinguished European authority to set forth the reasons for their creation in Europe.

> "Urban bankers being naturally more conversant with commercial or industrial undertakings are less capable of judging the standing of a farmer and his business capacity. Credit implies confidence and facility of supervision; but the banker is unacquainted with farming and farms are comparatively isolated units, usually more or less remote from the banking office. Ordinary commercial tests are not often applicable, especially where small farmers whose book-keeping is apt to be very incomplete and unmethodical, are concerned. The same difficulty presents itself as to proposed sureties who are also likely to be farmers. Other banking security is often out of the question and the procuring and bringing of sureties to the bank involves great loss of time and expense. The world in which the bankers or bank manager moves is not that of the farmer so that personal knowledge is infrequent. The whole situation is rendered even more unfavourable by the supplanting of small country banks by branches of great banks which are directed on fixed lines from headquarters and whose managers are frequently changed. Commercial banks cannot, moreover, be brought nearer than small towns....The smaller farmers offer also little attraction to the ordinary commercial banks as borrowers, and, apart from other disadvantages, pay for the small loan they require an unduly high percentage as interest and commission. As a result, farmers cannot obtain from banks, organized mainly to serve industry and commerce, credit in suitable amounts at reasonable interest and on security which they can usually provide. Yet while commercial banks have become less satisfactory from the standpoint of the farmer, his need for working capital has greatly increased. More scientific and intensive farming, made necessary by competition which has been facilitated by improved and cheapened transport, refrigerating processes, and other causes, requires more capital expenditure on labour, fertilizers, feeding stuffs and machinery; payment in kind being entirely superseded by payment in currency, while money wages are higher; and other expenditure including cash payments to the state and other public authorities has increased!"

The quotation is from a European document and may be taken as a reasonable statement of the conditions which gave rise to the institutions about to be described.

Of the institutions in Europe giving short term or personal credit to farmers the following, of which a short description is given, are the most important:

(1) The Raiffeisen System of Banks or Credit Societies of Germany.

(2) The Crédit Agricole of France.

(3) Modifications of 1 and 2 found in other parts of Europe as the Rural Banks and Popular Banks of Italy, Hungary and other countries.

(1) The Raiffeisen System of Banks or Credit Societies of Germany

There are two distinct steps to be taken to complete the organization of credit on Raiffeisen lines. First the formation among the farmers of local credit societies and second, the organization of a group of societies into a collective body federated into a central bank. These societies are based on what are known as the "Raiffeisen Principles".

(*a*) Their legal foundation is the unlimited liability of all their members for all liabilities of their particular society.

(*b*) Their aim is to improve the condition, alike material and moral, of their members.

(*c*) They admit only members from a distinct district, which is advisedly as narrowly circumscribed as is consistent with its being self-supporting; therefore, there can be no persons members of more societies than one at any one time.

(*d*) They collect no entrance fee.

(*e*) So far as the law of the land permits, they issue no shares; wherever the law makes shares obligatory, they limit a member's holding to one share only, which must be small; and should dividend be declared on such share, such dividend must not in rate exceed the interest charged upon loans.

(*f*) The only officer remunerated for his services is the "accountant" (the employee who keeps the accounts and actually handles the money); members of the managing committee and the council of inspection are expected to discharge their duties without remuneration.

(*g*) All profit resulting is conscientiously carried to an indivisible common fund belonging to the society as such.

The following statement prepared by the general secretary of the Union of Co-operative Societies in Germany will serve to make clear their purpose and mode of operation:—

> "The task which credit societies set themselves is to provide the cash required for advances and credits to be accorded to members; furthermore, to provide for the supply of goods required by members and to make any other arrangements for the promotion of the material welfare of their members which may appear desirable; and the aim which they pursue is to come to the aid of those who are materially weak and to further the intellectual and moral well-being of their members rather than to earn a profit. The foundation upon which they are built up is that of christianity and loyalty; it is a standing rule that at society gatherings neither denominational nor political subjects may be touched upon in discussion.
>
> "These societies are not allowed to engage in any speculative business whatever. Advances and credits are permitted only to members on personal security, and for objects held to be economically legitimate, in

the shape either of specific loans or else of current accounts. Adequate security must be provided for every loan or credit to be granted. And in respect of every loan the term for repayment is fixed in advance, the length of time and the amount of the instalments for repayment are in every case proportioned to the object of the loan and the power of the borrower to repay within a given time. No loan is granted without consideration of the object for which it is asked and the capacity and title of the borrower to answer for a credit. Borrowers are, on their side, entitled to repay at any time. In respect of certain contingencies the societies reserve to themselves the right of calling in the loan."

When the system is fully organized, it consists of a group of these local societies, each as independent unit, but federated into a Central Bank. The central Bank acts as a clearing house for the group. It makes it possible to confine the action of the local society to a small group in a fixed district, thus making collective action possible. The Central Bank also serves as a purchasing agency for agricultural requirements and a selling agency for agricultural products.

The Central Bank is a joint stock company, but its shares are held only by the local societies or certain officials of the institution.

The objects of the Bank are:—

(*a*) To carry on banking and credit business, more particularly as a means of equalizing temporary shortness or over-supply of cash in local banks.

(*b*) To provide for collective purchase of agricultural requirements, as well as for collective sale of agricultural produce.

The money required for the business of the Bank is provided as follows:—

(*a*) By the issue of shares to local societies.

(*b*) By deposits received and loans raised.

(*c*) By commissions charged and a margin of interest on business transacted.

(*d*) By profits on the dealing in goods and by similar income.

The money so raised is applied as follows:—

(*a*) In credits given in current account to local co-operative banks, societies, central banks formed for particular counties or provinces, co-operative societies.

(*b*) For carrying on a business in goods.

(*c*) For discounting acceptance and making advances in approved securities in conformity with the practice of the Imperial Bank.

(*d*) For any other purpose in harmony with the general objects of the institution.

The profits realized are applied as follows:—

(*a*) To the accumulation of a reserve fund.

(*b*) To the payment of a dividend on shares, which must not in any case exceed four per cent.

Each *local society has a credit fixed by the managing committee of the Central Bank.* This credit is based on the valuation of the possessions of the members of the society, the liability being unlimited, that is, each member is jointly responsible for the whole of the obligations of the local society to which he belongs. The borrowing power of each member of a local society is fixed by the local society.

The adjustment of assessment to determine the maximum credit of the local society is made every three years.

The business transacted between the local society and the central bank is as follows: "Should the funds collected locally by the branch offices prove insufficient for their daily requirements, those offices are to apply to the central bank for the balance needed. Such amount is furnished either in cash out of the balance in hand, or else by means of a draft on the Imperial Bank. Sur-

plus funds held by the branch offices are in the same way paid in to the Central Bank. Each branch office is required to send in to the Central Bank every week a return of its transactions and holdings in cash, and every month a full return showing the whole state of its business. By such means the Central Bank is enabled to exercise a steady and effective control over the branches. In addition, each branch office is subjected once every year to a minute inspection carried out, in conjunction with the chief inspector of the union, by a committee nominated by the Council of inspection of the central bank.

"In this manner the Agricultural Central Bank for Germany has, in spite of its formation as a joint stock company, been enabled to retain its genuinely co-operative character, transacting business in its wider sphere practically on the same co-operative lines as the local credit societies do on a smaller scale. Its being registrared as a joint stock company facilitates its business with the money markets, and provides for it, through its share capital, a working fund which cannot be affected by any changes occurring which influence local societies. Keeping the money transactions with societies in its own hands, it is in a position to charge lower rates than societies would be saddled with, were the business to be carried on through the medium of independent provincial intermediate institutions; and by means of its branch offices it secures to itself all that information respecting the financial status of local societies which is imperatively needed for the appropriate apportionment of credit. It is, therefore, a central bank based entirely upon self-help and self-government, and combining in itself all the advantages both of a centralized and a decentralized clearing house for money."

As already mentioned, these societies are not only co-operative agencies for obtaining credit, but also for the purchase and supply of farm requirements, and for the sale of farm produce. Within it are organizations for the purchase of fertilizers, feed, farm machinery and the collective sale of all kinds of farm produce.

In Germany there is a general Union of the Raiffeisen Societies with other types of co-operative societies such as co-operative dairies, etc., All these are under the caption of the "General Union of Rural Societies". Its aim is education. At the close of the year 1913 there were 25,576 of these societies in Germany, of which 16,927 were loan and savings banks of the type described above.

These credit societies have practically banished usury from the communities where they are organized. Any farmer of good standing in his community, who has established a reputation for honesty, may obtain his working capital on reasonable terms. In 1913 these societies had out on loan 1,800,000,000 marks at rates from four to five per cent.

All this was not accomplished by magic. It followed on a determined and systematic effort running through a long period of years to establish credit on a basis of security which reduces to a minimum the liability of loss. In other words, this has been made possible because the security offered is of such a character as to make serious loss to the lender almost impossible. The three essential facts of the security are:—

(*a*) The unlimited liability of all members of the society.

(*b*) The money borrowed must be put to productive uses.

(*c*) The operation of the individual society is limited to a small, well defined area.

(2) The Crédit Agricole of France

The agricultural credit system as worked in France is the outstanding example in Europe of a credit system involving co-operation among borrowers, either on the principle of limited or unlimited liability, and state aid. It is a state-aided co-operative system.

This system was created by a law passed in 1894 which took for its nucleus of organization the small unions and agricultural syndicates already in operation in local communities. The following statement from Senator Albert Viger of France, for some years President of the National Federation of Agricultural Co-operative Associations, indicates the idea behind the scheme:—

> "The first step toward the establishment of an Agricultural Credit System in France was to organize rural credit from below, to see that the roots were firmly fixed in the agricultural population itself. An idea formerly prevailed in France as in other countries that agricultural credit could only be established by the formation of great central banks from whence credit could flow out to all the local centres. When the government of France finally took up the question of agricultural credit in earnest, it was planned on an entirely different principle. It was decided that agricultural credit should begin with the lowest group; that the co-operative agricultural society or syndicate should form its own credit bank and that these should grow from below. Under the French system we therefore have the credit syndicate and out of these the departmental banks (Regional Banks) usually located in the principal towns and finally the Central Federation of credit over which I preside. The development of the system has been from the growth of the small unit."

It will be seen, therefore, that the unit of organization like that of the Raiffeisen system is the small group in the community organized for the purpose of facilitating the credit of the group. There are 4,000 of these local groups or banks organized in France; 1,000 on the principle of unlimited liability; 3,000 with limited liability. A bill is now before the French Parliament compelling the principle of unlimited liability. The system is highly specialized and includes only the farmers of the community.

In 1899, a system of Regional Banks was founded of which there are 100 now in operation. These correspond to the Central Banks of the Raiffeisen system. Each of the four thousand local banks functions through one of the Regional Banks. These are joint stock banks fostered by the state but not state-owned. State aid is granted on condition that they submit to state supervision. This aid stimulates their development so that to-day the system embraces the whole nation.

The Regional Banks were organized for two reasons:—

(a) To discount the bills of the local bank and to endorse them for the Bank of France. This was necessary because the Bank of France is not permitted by law to discount bills with less than three signatures. The endorsements of the farmer, the local bank and the regional bank, fulfill this condition. Further, it places between the Bank of France and the local unit an intermediary capable, from intimate knowledge, of valuing the security offered.

(b) The regional banks were further necessary as a medium for distributing the funds placed at the disposal of agricultural credit, by the Government. Each one receives from the government through the Bank of France four times the amount of its paid-up capital. This amount it uses as a reserve fund on deposit with the Bank of France to secure its credit for discounting purposes. The money for this is found as follows:

The charter of the Bank of France having expired in 1896, was renewed by the Government under certain conditions favourable to agriculture. The conditions were:

First, that the Bank of France must advance to the Government the sum of 40,000,000 francs, free of interest, to use in subsidizing the rural credit organizations.

Second, that it pay annually a certain portion of its yearly profits as an advance for agricultural credit. This conditional advance was to be not less than 2,000,000 francs. It has varied between 4,000,000 francs and 5,000,000 francs annually.

The law of 1896 fixed the annual advance from profits as twelve and one-half per cent. of the net profits on discount business done by the Bank of France. In 1911, when this charter was again renewed this percentage was increased to $14\frac{2}{7}$ per cent when the discount rate was $3\frac{1}{2}$ per cent and to $16\frac{2}{3}$ per cent when the discount rate was 4 per cent. The money provided in this way up to 1920 amounted approximately 200,000,000 francs.

When the charter of the Bank of France was renewed a committee was appointed composed of members of the Senate, representatives of the local banks, directors of the Bank of France and certain other persons through whom the funds provided as above should be distributed to the Regional Banks.

In the operation of these banks three forms of credit are granted:

(a) Short term personal credit.

(b) Long term collective credit (non-mortgage).

(c) Long term personal credit.

(a) Short Term Personal Credit

This form of credit is given generally for one year. It is strictly personal; only the endorsement of someone of known responsibility is required. The local association endorses and recommends to the Regional Bank which in turn, should it not have the money, endorses to the Bank of France. As the Bank of France is not allowed to make a loan for a longer period than three months, the advance is made for that period subject to renewal. In one year 85,000,000 francs were loaned in this way, of which 60,000,000 were from money provided by the state.

(b) Long Term Collective Credit (Non-Mortgage)

The main purpose of this form of credit is to promote the prosperity of the farmers with small holdings. It makes it possible for a group to unite for the production, conservation or marketing of the products actually produced by the members of the association. The members must be really engaged in production. The rate of interest on this form of credit must not exceed 4 per cent. The period of the loan must not exceed twenty-five years. The total loans to one society are limited to twice the capital of the society. This form of long term credit is not found in any other country in Europe.

(c) Long Term Personal Credit

The following statement from M. Vinreux, of the Crédit Foncier, will explain this kind of credit:

"The law of 1910, providing for personal long term agricultural credit, is the latest stone in the structure of agricultural credit in France. This form of credit is granted by the local banks through the Regional Banks, which receive money for this purpose out of the advance made for the purposes of agricultural credit by the Bank of France. It is only granted to small agricultural holdings, for the purpose of the law is to attach the small peasant farmer to the soil."

The maximum period for which the loan runs is fifteen years and is only allowed in the case of young farmers. The purpose is to assist the small farmer to purchase holdings and to encourage young men who have finished their military service to take up a farm.

The loans are extinguishable by amortization, and the rate of interest is, as a rule, two per cent. A mortgage on property may be taken but life insurance policies and surety security are accepted.

The French local societies differ from the German ones in certain particulars. They sell shares but only to persons who are already members of some professional agricultural syndicate or agricultural co-operative insurance association. While they may receive deposits a definite maximum is fixed in relation to paid up capital.

Unlike the German societies, the withdrawal of a member does not terminate his liability until the obligations assumed during his membership have been settled. Further, the principle of one man one vote does not apply, voting being based on shares held. In addition, loans may be made by the local society from its own funds for productive uses to farmers who are not members. The Regional Bank, however, with which the local society is affiliated, is not permitted to discount loans made to non-members. Lastly, no state aid is given to the local bank as such. All state aid is given to the Regional Banks which make loans directly to the person endorsed by the local society. As these organizations have a monopoly with respect to Government assistance, co-operation on the part of the farmer is almost compulsory.

Reference has been made so often in the foregoing to the Bank of France, that a word of explanation seems necessary. The Bank of France is a bank of issue; that is, its function is to issue paper money and re-imburse it. It issues notes either against deposits or on the guarantee of credit operations. It is prohibited from issuing loans on any other basis. The repayment of the paper francs in circulation is guaranteed either in coin or commercial paper protected by bonds.

The Bank of France assists agriculture in three ways. First, in conformity with regulations mentioned above it assists the individual agriculturist by facilitating loans and discounts. Second, it makes possible the work of the agricultural banks by rediscounting for the Regional Banks and other commercial banks. Third, it provides the government with funds with which to supply the needs of the agricultural credit banks.

(3) Modifications of (1) and (2) Found in Other Parts of Europe

Many variations of the foregoing types of credit institutions for personal credit are found in various parts of Europe. Nearly every country has found some modification necessary to suit its own requirements. In Italy personal credit is granted by both state and co-operative institutions. The aid of the state, as in France generally finds its way to the borrower through these co-operative institutions, and not directly to the individuals. By means of special legislation the Government of Italy has made provision to the extent of over $14,000,000 for agricultural loans at reasonable rates of interest, a maximum of six per cent being charged.

The co-operative banks of Italy are based on the ideas before mentioned. As applied to Italy they are known as—

(*a*) The People's Banks, organized by Luigi Luzzatti.

(*b*) The Rural Banks, organized by the Leone Wollenborg.

The inspiration in each case came from Germany and is but the application of known principles. There are about 2,000 banks of the second class in Italy of which two-thirds are under the control of the church.

In nearly every other country of Europe similar institutions exist for the promotion of agricultural credit. It is not too much to say that these institutions have been one of the most important factors in improving rural conditions in Europe. As stated by one who is an enthusiastic admirer of them. "The use of credit in agriculture may be compared to the use of water. If the water is brought into the field at the right time, in the proper way, and in proper quantities, it will be valuable; but if the field is flooded or if the water is applied at the wrong time, it will be destructive." These societies have aimed to apply credit to productive purposes and without question have attained their object.

SECTION III

RURAL CREDIT IN THE BRITISH EMPIRE OUTSIDE OF CANADA

The United Kingdom

Co-operation for the purpose of promoting agriculture and carrying with it the organization of co-operative credit, began in the United Kingdom in the year 1895. At first, it was mainly confined to Ireland, where the Irish Agricultural Organization Society was promoted. Development began in England in 1901 and in 1905 in Scotland, where societies were established following the Irish pattern established by Sir Horace Plunkett. The following statement from Sir Horace Plunkett indicates the principle on which the institutions were organized—"The keynote of our proposals is in the proposition that the farmers must work out their own salvation, and, further, that this can only be done by combination among themselves."

The objects set before them were "to secure the co-operation of all connected with the land, whether owners, occupiers, or labourers, and to promote the formation of agricultural co-operative societies for the purchase of requisites, for the sale of produce, for agricultural credit banking and insurance and for all other forms of co-operation for the benefit of agriculture."

Under the Agricultural Organization Society, all organizations were allowed to affiliate, which aimed at co-operation. By 1914, out of 495 co-operative societies organized in Great Britain and affiliated, there were 48 credit societies and one central co-operative agricultural bank. It is with the activities of the agricultural co-operative credit societies that we are specially concerned.

The following statement issued by the Board of Agriculture and Fisheries in 1912 indicates the point of view of the British authorities with respect to these societies:—

> "It is possible to form an agricultural co-operative credit society under the Industrial and Provident Societies Act, with shares and share capital and limited liability; but, as a matter of fact, all the societies of this character now in existence in England and Wales have been registered under the Friendly Societies Act, 1896, and the special authority granted by the treasury in accordance with section 8(5) of that Act. A society registered under that authority must have for its object the creation of funds by monthly or other subscriptions, to be lent out to, or invested for, the members of the society, or for their benefit, and must have in its rules provisions that no part of its funds shall be divided by way of profit, bonus, dividend or otherwise among its members, and that all money lent to members shall be applied to such purpose as the society or its committee of management may approve."

Unlimited Liability

All the societies organized under the Friendly Societies Act in Great Britain are unlimited liability societies, that is, every member of the society is, equally with every other member, jointly and severally liable for all debts incurred by the society and for any loan which any member or his sureties may fail to pay. No one is admitted as a member to a society unless he lives within a certain prescribed area, such as a parish or two or more adjoining parishes. He must

also be approved by the committee as a man of good character, worthy of admission to the society. All the members have an equal voice in the election of the committee of management.

Through these societies, loans are made to members on approved security for a specific purpose of such a productive nature that the loan may be repaid through the activity in which it is invested. The maximum loan is £50.

Deposits

The societies are permitted to receive deposits either from members or non-members and to pay interest on them. All profits are carried to a reserve fund for the purpose of meeting possible losses and no dividends are permitted. The only benefit which any person receives by becoming a member of the society is the special benefit of receiving loans.

The loans are taken out for any purposes likely, in the opinion of the loaning committee, to prove profitable, such as the purchase of sheep, pigs, cattle, horses, to procure seed, plants or manure, or for the employment of extra labour, and are made repayable at the time when the borrower may expect to reap the return of his expenditure, generally running from six to twelve months. Loans are granted for a period of two years under certain special conditions.

The rate of interest varies from 4½ per cent to 6 per cent.

The total amount of loans under these societies is not large and they have not played a very large part in the development of agriculture in Great Britain. Perhaps the chief reason for this is the unpopularity in Britain of the principle of unlimited liability and the fact that Great Britain is served so thoroughly by joint stock banks as compared with other countries on the continent of Europe.

Some of the joint stock banks have been willing to assist in financing these societies; in fact, many of them have offered their co-operation but even this did not assist the growth to any considerable extent.

In Ireland, organization of credit societies of the type just described has been much more rapid. In 1913, there were 236 of these credit societies in Ireland, with a total membership of 19,105 and a loan capital of approximately $275,000 and a turnover of about the same amount.

This probably represents the position in the United Kingdom at the outbreak of the war so far as Short Term Credit was organized among the farmers.

Long Term Credit

Long term credit in Great Britain has always been regarded as a field for private enterprise. In order that permanent improvements might be carried out by land owners, special corporations were organized, under government regulation, but without government assistance, for the purpose of making loans to farmers. For example, the General Land Drainage Company was formed in 1849, the Land Improvements Company in 1853, the Scottish Drainage and Improvement Company in 1856 and the Land Loan and Enfranchisement Company in 1860. The first and last of these just mentioned were absorbed into the Land Improvements Company in 1864.

All these companies were authorized under statutory authority which permitted charges to be made against estates. The interest was limited to 5 per cent. Since the war, it has been found necessary to remove the 5 per cent limit and to allow the rate of interest to be fixed by the Board of Agriculture.

The Improvement of Lands Act of 1864, authorized land owners to raise loans on mortgages against their estates. From its inception the Land Improvements Company authorized under the Act advanced approximately £13,000,000 for various improvement purposes.

There was a similar organization for Scotland.

Under these schemes, money is advanced for the erection of farm buildings and cottages, for the making of roads, sewers, drains and for the erection of silos. Before the loan is made, the application must be submitted to the Department of Agriculture and Fisheries for inspection and approval. The loans are repayable by an annuity for a prescribed period, which varies from 15 to 40 years, according to the nature of the improvements.

The mortgage given ranks prior to existing mortgages, but not as against statutory taxes. As these mortgages are usually assignable to insurance companies, who seek them for investment purposes, the resources of the company are very great and money has always been easily available.

Under a general statute of Great Britain, machinery is created for the organization of other companies to do corresponding work so that there is a basis for the development of regulated private enterprise in this connection to a very considerable extent.

During the war, the position of agriculture in England underwent a great change. There was an increase in England and Wales of over 21,000 landholders as compared with 1914, and in Scotland an increase of 1,600. The majority of these purchases took place between June, 1919, and June, 1921, the total involving a change in ownership of approximately 2,000,000 acres of farm lands.

There were two reasons for this—(*a*) There was a desire on the part of many landowners on account of heavy taxation to dispose of their land, and (*b*) a keen demand for the purchase of farms for the purpose of land settlement, due to the increased price of farm products. In October, 1919, the then Prime Minister gave the farmers an assurance that the prices of staple products would be maintained in case of the markets falling, so as to safeguard them against serious loss. This was put upon the statute book in 1920, a sliding scale being fixed, based upon the 1919 cost of production. This was the period during which so much land was purchased and at prices beyond normal values. The following year, 1921, conditions had arisen which made it impossible to carry out the provisions of the statute of 1920 and it was repealed.

A committee was appointed by parliament in 1923 to make an investigation into the whole matter and decided that "the plea that the farmer was induced to buy land by the representations made by the Government has undoubtedly a solid foundation", and , therefore, some scheme of relief was necessary.

The fall in prices further produced generally a condition with regard to the farmers in England that was brought about by the fall of prices in both Canada and the United States. A great deal of the money used in the purchase of lands had been borrowed from the banks by means of overdrafts and as the banks were not allowed to take mortgages, the position of both banks and farmers was considered precarious.

The same committee went into the whole question of short term credit for farmers to meet their current needs and examined the facilities that were offered by the banks and the conditions under which loans were made. It is not necessary in this report to go into the details of the enquiry. Suffice it to say that the relation of the banks, the credit of merchants and dealers were all inquired into. It was found that there was outstanding approximately £46,000,000 on loans to farmers from the banks, of which £26,000,000 had been advanced for the purchase of land and £20,000,000 for normal current production. The committee was of the opinion that bank facilities were, in the main, available to farmers in good standing, but that a large class of small

farmers, who did not easily have access to the banks, had not credit facilities necessary to make a success of their occupation. Recommendations were, therefore, made covering both the long term and short term credit and were incorporated into an act of parliament, which was passed July 31st, 1923.

Provisions under Act, July 1923, for Long Term Loans

Under this Act, power is given to the Public Works Loan Commissioners to lend money to associations created for the purpose of making advances upon farm mortgages at any time within five years after the passing of the Act, the total amount to be subject to the approval of the Treasury and under conditions which the Treasury may prescribe. The borrower must be a person who had agreed to purchase the land comprised in the mortgage not earlier than the 5th day of April, 1917, and not later than the 27th June, 1921. The object of this is to cover the period of inflated land prices.

The land comprised in the mortgage must be wholly or mainly agricultural land.

The amount of the loan must not exceed 75 per cent of the value ascertained to the satisfaction of the Commissioners, or exceed an amount equal to thirty times the annual value of the land as ascertained for income tax purposes.

The rate of interest is to be fixed by the Treasury.

The loan is repayable in sixty years by yearly instalments of the principal advanced, together with interest charges.

The land must be free-hold or copy-hold land.

The advance is made by the Commissioners to an Approved Association, which, in turn, secures the mortgage on the property.

"For the purpose of the Act, the expression 'Approved Association' means an association which is approved by the Treasury for the purposes of this Act and which does not trade for profit and by its constitution or otherwise is restricted in relation to the rate of interest on loan capital and the distribution of profits among its members, so as to comply with regulations made in that behalf by the Treasury."

The sections of the act referring to Long Term Credit, as previously stated, are designed to assist recent purchasers of land.

Provisions under Act, 1923, for Short Term Loans

The Act further calls upon the Minister of Agriculture and Fisheries to "take such steps as are practicable to promote the formation or extension of Agricultural Credit Societies, that is to say, societies approved by the Minister and registered under the Industrial and Provident Societies Act, 1893, having for their object or one of their objects, the making of advances to members of the society repayable within a period not exceeding five years for such agricultural purposes as may be approved by the Minister."

The Minister of Agriculture and Fisheries is authorized at any time within three years after the passing of the Act, or during such additional period as the Treasury may prescribe to make advances to such societies to an amount equal to the amount of shares held by members of the society and of which at least 25 per cent has been paid up. This is clearly an effort to create a greater interest in the Agricultural Credit Societies mentioned earlier in this section.

The Act is made, subject to certain modifications, to apply to Scotland.

The Act is cited as the "Agricultural Credits Act of 1923."

In this report I have not taken cognizance of special Acts for the purchase of land from landowners, such as the enactments for the purchase of land in Ireland.

It is expected that, under the stimulation of government assistance, the Credit Societies will have a rapid development, especially among small farmers. The overcoming of the individualistic tendencies of the British farmer, however, is likely to be a slow process.

The Commonwealth of Australia

In all the States of the Australian Commonwealth, provision is made for loans from government sources to farmers, both for short term and long term credit. In most of the States, advances are made as loans to settlers, advances for the purchase of farms, and advances under the Returned Soldiers' Settlement Act. The Commonwealth government has contributed by advances to the various States to meet the requirements of the Returned Soldiers' Settlement Act. These advances to the States up to June 30th, 1923, amounted to approximately £32,866,000.

New South Wales

In New South Wales, there is a Government Savings Bank with a Rural Credits Department. Through the Rural Credits Department all advances are made to settlers. For Short Term loans, these advances are made as overdrafts on current account. For Long Term loans they are made on first mortgages with an amortization period of 31 years. The limits of the loans made under the Act are £50 to £2,000. They may be made,—

(1) for the purchase of farms, in which case advances must not exceed 80 per cent of the valuation of the security and are limited to £1,250;

(2) for land held in fee simple; the loan must not exceed 66 per cent of the security;

(3) not exceeding £500 in the case of homestead lands, provided that this does not exceed the value of the improvements on the land;

Loans may also be made on land leased for a period of years on a basis of 50 per cent of the security which the borrower can offer.

The savings banks are under a Board of Commissioners, to whom is given the authority to make loans.

As the advances to returned soldiers are under a special act for a special purpose, I am not entering into a discussion of these loans.

Victoria

In the State of Victoria, the State Savings Bank is the institution through which money is advanced to settlers. Under this bank there is a loan mortgage department created for the express purpose of making loans to settlers. This department is authorized to borrow up to £10,000,000 for the purpose of making loans. The bank is controlled by a Board of Commissioners on whom is conferred the authority to decide on loans.

The limits of the loans are the same as in New South Wales, viz., £50 to £2,000, a limit of two-thirds of the value of the security offered.

In the case of special land used for vineyards, hop-grounds, orchards, etc., advances may be made to a much larger limit, subject to the will of the commissioners.

Mortgage bonds may be sold for the purposes of the Act and the loan may be made in cash or in mortgage bonds at a price fixed by the commissioners.

Victoria has, in addition to this State Savings Bank Act, an Act called "The Closer Settlement Act," which is under a board known as "The Closer Settlement Board," through which loans, so far as agriculture is concerned, may be made,—

(1) to agricultural labourers on allotments in aid of the cost of fencing and erecting dwelling houses;

(2) to lessees of crown lands for carrying on farming or grazing pursuits and to owners of land for the purchase of fencing, etc.

The interest fixed is 5% and the repayments are made on the basis of forty half-yearly instalments.

Queensland

In Queensland, advances are made under a State Advances Act and the Co-operative Agricultural Production Act. Under the State Advances Act, the board of management may make advances to property owners for any of the general purposes of agriculture against first mortgage on property. The limit of advances is £1,200 and in no case to exceed 75 per cent of the value of the property.

Advances may be made to purchase property or to refund indebtedness for agricultural purposes, to purchase stock and implements, to effect improvements or any general agricultural productive purposes.

The loan is repayable in 20 years in half-yearly instalments.

The interest rate is 5%. Interest only is payable during the first five years, amortization beginning after the end of the five year period.

Under the Act known as "The Co-operative Agricultural Production Act", advances may be made to any co-operative organization engaged in manufacturing processes relating to agriculture. These loans may be made up to two-thirds of the entire cost of the machinery and buildings necessary for the process.

This Law calls for the organization of associations with capital shares of which at least two-thirds must be held by producers. Upon the shares no dividend greater than six per cent is permitted. The security in this case is a first mortgage on property.

South Australia

In South Australia, there are a number of Acts, under which advances may be made to farmers out of government funds, of which the most important are:—

(1) The Crown Lands Act. Under this Act, advances may be made to homestead holders for erecting buildings and making improvements on their land. The limit of loan is £50.

(2) The Advance to Settlers on Crown Lands Act. Under this Act there is a Board known as the Advances to Settlers Board, which is authorized to make advances to any settler on the security of his land and improvements, for the purpose of making improvements, the limit being £400. An additional loan of £250 can be made provided this is not greater than three-fourths of the excess value above £400 of the property. The loan may be made for discharging existing mortgage or for any other productive purpose, if satisfactory to the Board.

Interest only is required on the loan for the first five years and from that time it is amortized by half-yearly instalments in thirty years.

(3) The State Advances Act. The State Advances Act is similar to the State Advances Act previously described. Loans under this act cannot exceed £5,000 and must be repaid within 42 years. The loan is based on a three-fifths value of the property.

(4) The Irrigation Act. Under this Act, there is a Commission known as The Irrigation Commission, which may make loans on leased property for the purpose of clearing, fencing, constructing channels or drains, or for erecting buildings. A limit of £600 is fixed. In addition to this, £200 may be advanced for the purpose of improvements, stocks, etc. An additional loan may be made for refunding in the case of mortgaged property.

(5) Under the Loans to Producers Act, the Minister of Agriculture may, on the security of a mortgage on the property, make loans to any registered co-operative society, three-fourths of whose members are engaged in agriculture. This money can be applied to the erection of factories, packing houses, etc., etc., the Minister being protected by first mortgage on the property.

(6) There is one other Act, known as The Agricultural Graduates Land Settlement Act. So far as I am aware, this is the only act of its kind in existence. Under the provisions of this Act, the government is authorized to purchase land with a view to the settlement of graduates of agricultural colleges. Loans under this Act may be made up to £3,000 for each graduate and an additional £500 for the purpose of purchasing seed, implements, etc. During the first three years, interest only is payable and the capital in half-yearly instalments during the following six years.

Western Australia

In Western Australia, an Agricultural Bank was established in 1895. The management of this Bank has authority to make advances up to £2,000 on the security of first mortgages to persons engaged in agricultural pursuits. Advances are repayable over a period of 30 years. Interest only is payable during the first ten years and the principal on an amortization plan with the interest during the remaining 20 years.

Tasmania

In Tasmania advances are made to farmers and producers under three separate Acts, functioning in a manner similar to those in the other States. Those are (1) The Advances Act, (2) The Closer Settlement Act, and (3) The Advance to Fruit Growers Act.

Under the various Acts described there was loaned, during the year 1922, in the Australian States..	£12,801,731
The total advances to date were..	£77,323,766
And the outstanding balances in all the states amounted to.. ..	£53,913,716

The Union of South Africa

For the purpose of promoting agricultural credit, the "Land and Agricultural Bank of South Africa" was established in 1912. Before the establishment of the Union of South Africa, a number of the parts which entered into the Union had loan banks of their own; for example, the " Transvaal Land and Agricultural Bank," "The Land and Agricultural Loan Fund of the Orange Free State," "The Land and Agricultural Loan Fund of Natal," "The Agricultural Credit Bank in the Cape of Good Hope." The latter bank had, however, never been operated. With the establishment of the Land and Agricultural Bank of South Africa in 1912, all the provincial banks ceased to exist and their assets and liabilities were transferred into the new bank, cited as "The Union Land Bank."

When the Union Land Bank started business, it had a capital of £2,735,000, derived from the provincial banks on the basis of the settlement under which the amalgamation was effected. In addition to this, its capital consists of—

Such monies as the parliament may from time to time appropriate and such amounts as may be recovered from loans under certain old enactments which become part of the general scheme, and such further amounts as the bank may be able to raise for the purpose of financing co-operative societies by means of:

(1) discounting with other banks bills of co-operative societies,
(2) overdrafts with other banks,
(3) issuing Land Bank bills.

Up to the end of 1922, Parliament had authorized advances to just over £4,000,000. On account of the war, however, all of this had not been paid into the funds of the bank, but £3,060,361 were actually paid in by the Minister

of Finance. In the meantime, approximately £340,000 has been added to the bank as the result of collections under the arrangements mentioned above. The total capital of the bank, therefore, at the end of 1922 was approximately £6,000,000.

On this amount Parliament has authorized the payment of 3¾ per cent, but by resolution of Parliament, the interest charges varied during the period of the war. At the moment, the bank is returning to the state an amount in excess of the cost of the money raised by the state.

This bank is under the management of a central board, appointed by the Governor General, consisting of a general manager and four other members. In addition, local boards have been established at Cape Town, at Port Elizabeth and at Bloemfontein, for advisory purposes only, the headquarters of the bank being at Pretoria.

Under the Act, every magistrate, field cornet and police officer and the Postmaster General and any officer under him are by law agents of the bank when required by the central board to give assistance.

The main objects of the Bank, in so far as they affect agriculture, are—

(1) to make advances to farmers against the security of first mortgage on agricultural and pastoral lands. Advances cannot be greater than 60 per cent of the appraised value of the land nor greater than a maximum of £2,000;

(2) to make advances to agricultural co-operative societies against the security of the joint liability of the members for the society's debts;

(3) to make advances to farmers to construct dipping tanks, silos and other contrivances for the making or storage of ensilage and to erect boundary fences;

(4) to make advances to settlers who hold land from the Crown under lease or license. In addition, advances made to farmers by Parliament for purposes of relieving distress from time to time have been administered by the Bank;

(5) to promote co-operation among farmers.

The bank's relation to the co-operation societies, is that of a lending agency. Legally the Bank is not responsible for the formation of these societies. They are formed under a special Act for the Promotion of Co-operation, administered by the Department of Agriculture.

These co-operative societies at first were unlimited liability, but, by an Act passed in 1922, the Bank is authorized to make advances to these societies with limited liability, to receive money on fixed deposits for the purpose of financing co-operative societies and to make advances with respect to fencing of boundaries and public roads.

Prior to 1921, the Bank was authorized to charge only 5 per cent interest; since 1921, 6 per cent interest has been charged on all loans.

It will thus be seen that this Bank serves the purpose of the Long Term Credit and Short Term Credit organizations in other countries, that is, it makes capital loans on first mortgages to farmers, and, in addition, makes short term loans for seasonal purposes through the co-operative societies organized within the Union.

Since its inception in 1912, the Bank has shown a net profit of £355,596, being 5.14 per cent on the capital invested.

"While the bank is conducted on ordinary commercial lines, its object is not to make large profits and the law provides that as soon as the reserve fund and the capital of the bank total such an amount as is in the board's opinion adequate

to enable the bank to fully carry out its objects, an amount determined by the board will be paid to the Minister of Finance out of the profits and the reserve fund of the bank, but the amount of the reserve fund may not be reduced below £350,000... It is anticipated that the time is not far distant when the bank will be fully able to carry out its objects on its own resources and that it will be in a position to commence the repayment of its capital."

On the 31st of December, 1922, the co-operative societies owed the Bank £750,565, while the turnover of the co-operative societies for the same year was £1,237,400.

The amount of loans on mortgages on 31st December, 1922, was £5,858,824. These figures will suffice to show the relation between Short Term Credit to co-operative societies and that of Long Term Credit on mortgages.

It will thus be seen that under the South African plan, agriculture is called upon to carry itself financially, the government borrowing the money, thus giving security to the lenders and making possible reasonable interest rate, while the business of the bank is supposed to be conducted so as to secure a business-like return to the State.

The Dominion of New Zealand

The effort to promote agricultural settlement through government support began in New Zealand many years ago and has been worked out with greater detail with respect to the classification of land and the kind of security offered for loans than in any other part of the British Empire.

Under the authority of an Act passed in 1892, the government began the purchase of lands in order to make provision for their sale or lease to private individuals. In 1894, an Act was passed, known as "The Advances to Settlers Act," the first of a considerable number of enactments having for their object the lending of money to settlers and workers for the purchase and improvement of farms and for the general development of the resources of the Dominion.

Two general ideas lie behind all these schemes:—

(1) The providing of money on security direct to settlers, and
(2) The providing of money by the government itself in the survey and improvement of purchased lands with the intention of recouping themselves from the sale of the land.

Under the Advances to Settlers Act of 1894, an Advances to Settlers Office was established and authority was taken to raise £3,000,000 within two years for the purposes of the Act.

A number of other Acts were passed prior to 1913 relating to the subdivision of the land, all of which were embodied in a new Act passed in 1913, known as "The State Advances Act."

This Act is of a general character relating to many things other than advances to agriculture, making provision for advances to settlers, for advances to workers and for advances to local authorities. In this report, except incidentally, only the agricultural phases of the Act are dealt with.

Advances to Settlers

With regard to advances to settlers, the Act authorizes the establishment of an office, called the State Advances Office, managed by an officer called the Superintendent, who in his own right becomes a corporation. He holds office at the pleasure of the government.

Under this Act, the Advances to Settlers Branch is authorized to make first mortgages on lands in New Zealand when free from all encumbrances, liens and interest, other than leasehold interest. The Act defines freehold land

as land registered under the Registration Act of 1908 and describes a great many other types of land, which, under special forms of lease, are also eligible as security for loans.

Advances are made between the limits of £25 and £2,000, but loans not exceeding £500 are given priority. In the case of freehold lands, loans are granted to three-fifths of the value of the security, or two-thirds, if the land be first class agricultural land. In the case of lands where the security is leasehold, loans are granted to three-fifths of the value of the lessee's interest.

Loans are made at the rate of 5 per cent interest per annum, and are repayable in 36½ years on the amortization principle. The borrower is permitted, however, to repay from time to time part of the principal in amounts not less than five pounds or a multiple of five pounds.

In order to encourage early payment, one-tenth of the interest is rebated, if the mortgagor, not being in arrears for previous instalments, pays his interest on or before the date due.

Funds for Loans

Section 18 of the Act sets out the process by which money for the purpose is raised:

(1) For the purpose of the Advances Office, the Minister of Finance, on being authorized by the Governor in Council so to do, may from time to time raise on the security of and charge upon the public revenue of New Zealand, such sums of money as he deems fit, not exceeding in any one financial year the amounts hereinafter specified.

(2) The maximum amount that may be raised in any one financial year for the business of the several branches of the Advances Office shall be as follows:

For the Advances to Settlers Branch.. ..	£1,500,000
For the Avances to Workers Branch.. ..	£ 750,000
For the Advances to Local Authorities..	£1,000,000

(3) The sum so raised shall bear interest at such rate, not exceeding five per cent per annum, as the Minister prescribes.

Since the inception of the scheme in 1894, loans have been advanced to 53,228 people amounting to £19,826,000, of which £12,155,812 has been repaid, leaving outstanding £7,670,188. These figures are as at December 31, 1921. Of the loans outstanding at the above date, 14,166 are for sums not exceeding £500.

Of the amount outstanding approximately £4,500,000 is on rural land, the balance being on urban or suburban land.

It may be of interest to note that under the Advances to Workers Branch (and a "worker" is defined as a person whose income does not exceed £200), there has been loaned out £4,446,685, and under the Advances to Local Authorities Branch, there has been loaned out £4,661,000.

In addition to the money raised as described above, the Act authorizes the lending to settlers of the amount paid in to the Public Debt Sinking Fund and the amount also paid in to the Advances Office Sinking Fund.

Sir George Elliott, Chairman of the Board of Directors of the Bank of New Zealand, the government bank, recently stated that the total mortgage indebtedness of New Zealand was not less than £200,000,000. Of this amount approximately £7,000,000 is outstanding under the State Advances Act, which, after all, is a very moderate amount in comparison with the whole. He states that of the £200,000,000 loaned on mortgage, by far the largest proportion has been obtained from sources within the Dominion of New Zealand and represents money in the possession of persons of moderate means.

As a large proportion of the loans under the Advances to Settlers Act is in amounts not exceeding £500, it would appear that advantage has been taken of

this Act by a considerable number of persons of moderate means, who, at the time of taking the loans, were in the process of establishing themselves.

A Moratorium Act has been in force in New Zealand with respect to repayment of the principal of mortgage loans for nine years and will expire on 31st December, 1924.

During the war period, the same conditions with respect to the prices of land which existed in England and the United States, and, to a limited extent, in Canada, existed in New Zealand, giving rise to after war hardships which made the moratorium necessary.

Short Term Loans

The Bank of New Zealand, which is a bank conducted by a Board for the State also does a very large business with the farmers. £10,009,000 of the outstanding obligations as at March 31, 1922, were advances on short term loans made to farmers. A very large proportion of the loans were under £100, and, therefore, were probably made to farmers of moderate means.

During the session of the Parliament of New Zealand of 1922, an Act providing for the incorporation of local associations of the usual co-operative character was passed. The objects to which loans under these organizations could be applied were as follows:—

(*a*) Clearing, fencing, drainage and improvement of a piece of ground occupied by the member;
(*b*) Construction of buildings on these grounds;
(*c*) Purchase of tools, livestock, seed, plants, trees and other things useful for the occupation or exploitation of land;
(*d*) Purchase of professional implements;
(*e*) Payment of mortgages, debts, and other obligations of the member;
(*f*) All the other objects which the Governor General in Council may declare as approved in the sense and for the purposes of the present law.

No associations had been formed under this Act up to 31st July, 1923.

In all the British Dominions, agriculture has felt very heavily the after effects of the war and special consideration has been granted it. Reports would indicate that the institutions described above and designed to aid agriculture are functioning as satisfactorily as could be expected.

SECTION IV

RURAL CREDIT IN THE UNITED STATES

1. Long Term or Mortgage Credit

The agitation for rural credit in the United States began many years ago. During periods of prosperity it would lie dormant but would spring into life again during periods of depression. The whole movement which led to the establishment of the small state banks with authority to do mortgage business was a result of the conviction that the large national banks under federal regulations were so commercial and industrial in their spirit and organization that the state system of small banks was necessary to agriculture. It was an effort to solve the problem of mortgage credit from within the state. The fact is that almost without being recognized agriculture had become so enormous in its industrial and commercial relations that old methods of financing its operations were felt to be inadequate without the real reason becoming quite apparent. This state of affairs was brought about by the permanent settlement of the enormous areas of good agricultural land and the disappearance of cheap new lands capable of easy settlement; the consequent rise in value of the lands in the settled area and the difficulty of securing, without being possessed of considerable capital, good farms; the better education of the farming population and the consquent application of modern science to agriculture.

With regard to available lands it may be noted that by 1915, six-sevenths of all the free land of the United States had been taken up and what remained was mostly desert, dry or swampy land which could not be brought under cultivation without great capital expenditure. This was brought about by the passage of the Homestead Act of 1862. Long before 1900 therefore land in the settled areas had so advanced in price that the difficulty of obtaining good land by those who desired to cultivate it became very great and larger capital expenditures were necessary. This fact is indicated by the enormous increase in the price of land as shown by the United States census and by the rapid increase in the number of tenant farmers. Land which had been bought originally for $1.25 an acre was worth in 1915 from $150 to $250 per acre. The average price of plow land in the United States in 1919 was estimated by the United States Bureau of Crop Estimates as $74.31 per acre, while since 1900 the average value of the farms in the country had increased approximately 400%.

Parallel with this rise of values and as a consequence of it was a great increase in the number of tenant farmers. In 1880, 25.6% of the farmers of the United States were tenants; in 1920 this had increased to 38%. The high prices meant either becoming a tenant or removing to the centres of industry.

During the same period and prior to the establishment of the Farm Loan Board in 1916, there had been an enormous growth of farm mortgage business through the agencies established under state and federal laws for the purpose. In 1913, the estimated total value of farm mortgages in the United States was $3,599,000,000. In the seven years following, this had increased to the enormous total of over $8,000,000,000, the figure at which it now stands approximately. The agencies granting these mortgages were the Farm Mortgage Banks, Farm Loan Companies, Insurance Companies, local investors, private lenders and State Banks and Savings Banks.

Farm Mortgage Banks

The Farm Mortgage Banks were really the pioneer institutions. They came into being after the Civil War following the development of the western states, because of the necessity for an intermediary between the eastern capitalists seeking investments and the western farmer. Men living in the new centres of populations, familiar with the country and confident of its future loaned their small capital to farmers on first mortgages and then sold the mortgages to the men of means in the East who possessed larger means and who desired good investments. From such a small beginning larger farm mortgage banks came into being, the bank taking the place of the intermediary instead of the individuals. In 1921, Farm Mortgage Banks and Farm Loan Companies organized on the same principles had over $3,000,000,000 of mortgages. These institutions put their own money into the loan, sell it either directly or by means of bonds to the capitalist, collect the interest and principal and in general act as agents for the secondary investor, while carrying the responsibility for the transaction in case of failure on the part of the borrower.

Insurance Companies

Next in importance came the Insurance Companies. These had invested in farm mortgages in 1921, $1,250,000,000. Many of these mortgages were purchased from the Farm Mortgage Banks. As their aim is security as well as profit, they will doubtless be heavy buyers of the bonds of the Farm Loan Board. A number of these companies are now making loans on the amortization plan.

National Banks

Prior to 1913 the National Banks were not permitted to lend on the security of land. They were primarily commercial institutions and required liquid assets. Many of these, however, acted as agents doing the work of a Farm Mortgage Company for private persons and insurance companies. Since 1913 National Banks, when not situated in a Federal Reserve City, may make loans on farm lands under certain definite restrictions. For example, such a loan can only be a first mortgage on improved property and the total loans at any time must not exceed one-fourth of the capital and surplus of the banks.

State Banks

Since 1890 a very large part in mortgage credit business has been played by the State Banks. Of these there are now nearly 20,000 in the United States. As previously stated they grew rapidly after the free lands had been settled and the demand for rural credits became somewhat insistent. They depend mainly on the farming community for their business and are planned to meet its needs. Many of them prefer the State charter to the National charter for the reason that the former carries with it more privileges in the direction of the mortgage business. It is estimated that the mortgages held by the State Banks amounted in 1915 to at least $1,000,000,000. They are, however, definitely restricted by the fact that most of them have small capital and are provincial in their character and outlook.

Trust Companies and Other Organizations

In addition to the foregoing a considerable amount of farm mortgage business is done by Trust Companies, Building and Loan Associations and a great variety of saving banks operating under state laws. Probably one-third of the total mortgage business is done through these agencies.

With all these agencies at work it would seem that all legitimate claims for money on farm mortgage security would be met.

That such was not the case was due to following causes:—

(1) The high average of interest rates which prevailed, when compared with the European farmers with whom the American farmer must compete, especially in the newer settled parts of the country, the parts least able to pay.

(2) The excessive costs connected with the making of loans, namely legal costs, commissions, and incidental expenses.

(3) The impossibility of meeting mortgage payments out of production of the land because of the short terms for which the mortgage was made. This is emphasized when the increased cost of the instruments and methods of production are considered.

(4) The knowledge that in other countries schemes of a national character had been found to work well both in the national interest and the interest of the farmer.

Interest Rates

With regard to the interest rates, the facts are that the average rate of interest on first mortgage loans in thirty states of the Union was $7\frac{1}{15}$ per cent in 1915.[1] To this must be added legal expenses, commissions and other charges. In the different states the averages were as follows: Alabama, 8·8 per cent; Arkansas, 8·8 per cent; Arizona, 10 per cent; Illinois, 5·5 per cent; Indiana, 5·6 per cent; Iowa, 5·6 per cent; Massachusetts, 5·5 per cent; Minnesota, 6.2 per cent; Montana, 9.3 per cent; Ohio, 5.7 per cent; Oklahoma, 7·2 per cent; Pennsylvania, 5·3 per cent; Texas, 8·5 per cent; Utah, 8·7 per cent; Wisconsin, 5·6 per cent; Wyoming, 9·2 per cent. In comparison the average in Europe does not exceed 5 per cent.

Not only was there a variation between the states but just as great a variation within the individual states. In Minnesota, an extreme case, it varied from 5 per cent in the south to 9 or 10 per cent in the north. Without question these variations represented to a certain extent variations in the quality of the security. Soil and climatic conditions, the type of farming, the distance from markets, also played a part, but it was firmly believed that the public were being exploited by the money-lender especially in the new districts where there was not much competition. It was recognized that this could not be corrected by the small banks whose facilities for getting money were limited and by whom a rediscounting was absolutely necessary if considerable business was to be done.

With regard to (2), excessive costs in obtaining money, it is only necessary to say that for short term mortgage loans, two to five years, a commission of 5 per cent or over was often charged; this added to the interest rate one or two per cent. When it is added that two-fifths of the total mortgage debt is in the west north central states where the average rate is high, it seems reasonable to assume that the average interest charges of the thirty states were not far from 8½ per cent interest, with legal charges still remaining to be accounted for, while in many of the states it greatly exceeded that sum.

With regard to (3), the impossibility of meeting mortgage payments under the short term conditions of payment, especially by those whose original capital was small, was everywhere apparent. It is hardly necessary to repeat that mortgage payments on land at \$50 to \$75 per acre are an entirely different thing from such payments at \$10 per acre. In the latter case payments from production might be possible; in the former it would be impossible unless the mortgage was on a small percentage of the value. New methods had to be devised.

To this was added (4) the knowledge, that schemes less oppressive to the borrower, of greater security to the lender and at lower rates of interest were working well elsewhere, and this created the demand for careful consideration of the whole subject.

[1] Investigations made by the Rural Organization Service of the United States Government.

A distinguished authority on agriculture, the Assistant Secretary of Agriculture in 1915 stated the matter to a body of bankers in the following terms: "I believe I am not overstating the matter when I say that a satisfactory system of Rural Credit is as necessary to the development of agriculture in the country as is a widespread application of scientific methods to agriculture. As a matter of fact, it is impossible for the farmers to make use of the latest scientific discoveries without better credit facilities." It is hardly necessary to state that the two go hand in hand.

In 1913, two commissions were sent to Europe from the United States to study and report on European methods. These were the "United States Commission" and the "American Commission on Rural Credits." The former was appointed by the United States Congress, the latter was assembled by the Southern Commercial Congress, an organization in the southern states interested especially in the industrial, commercial and agricultural development of the southern states. The reports of these commissions were published by the United States Senate and became the basis of future legislation. If I were to select one fact as impressing the American mind more profoundly than any other as the result of the studies in Europe of these commissions, I would say it was the fact of farm mortgage bonds or debentures coupled with amortization.

One observer, a member of Congress, stated this conviction thus "One of the most important discoveries in the world was the invention of the farm mortgage bond or debenture as an instrument to promote land credit. There never has been a successful system of land credit established in any country that does not use the mortgage bond or debenture as an instrument of credit to mobilize and liquefy land values. Through the mortgage bond the farm mortgage has been made easily negotiable and put in such a form that the holder may realize thereon immediately."

The result of all this agitation was the passing of a number of acts for the purpose of promoting Rural Credit. Of these, one was especially designed to promote *Long Term Mortgage Credit*, viz:—

THE FEDERAL FARM LOAN ACT

The Federal Farm Loan Act was approved by the President of the United States on July 17th, 1916. It is described in the Act itself as an act "to provide capital for agricultural development, to create a standard form of investment based on farm mortgages, to equalize rates of interest upon farm loans, to furnish a market for United States bonds, to create government depositories and financial agents for the United States, and for other purposes."

Under this Act, there is established at the seat of government in the Department of the Treasury, a Federal Farm Loan Bureau, under the supervision of a

FEDERAL FARM LOAN BOARD

This Federal Farm Loan Board consists of seven members including the Secretary of the Treasury, who is Chairman, ex-officio. The remaining six members are appointed by the President of the United States, by and with the consent of the Senate. Of the six, not more than three are to be members of one political party and all must be citizens of the United States. They all devote their entire time to the work of the Board and are paid $10,000 per annum for their services. The term of office is eight years and members are only removable for cause; they cannot be connected with any mortgage or bonding business and must certify to this under oath before appointment.

FEDERAL LAND BANKS

Under the Act, the Federal Farm Loan Board is instructed to divide the United States, into twelve districts, to be known as Federal Land Bank districts, the districts to be apportioned with regard to the farm loan needs of the country.

In each of these districts, they are authorized to establish a Federal Land Bank "with its principal office, located in such city within a district as the Board shall designate." The name of the city in which the bank is located is included in the name of the bank. These banks are now located in the cities of Springfield, Mass., serving Maine, New Hampshire, Vermont, Massachusetts and New York; Baltimore, Md., serving Pennsylvania, Maryland, Delaware, Virginia, and West Virginia; Columbia, S. C., serving North Carolina, South Carolina, Georgia and Florida; Louisville, Ky., serving Kentucky, Indiana, Ohio and Tennessee; New Orleans, serving Louisiana, Mississippi and Alabama; St. Louis, Mo., serving Illinois, Missouri and Arkansas; St. Paul, serving Minnesota, Wisconsin, Michigan and North Dakota; Omaha, serving South Dakota, Nebraska, Iowa and Wyoming; Wichita, serving Kansas, Oklahoma, Colorado and New Mexico; Houston, serving Texas; Berkeley, serving California, Nevada, Utah and Arizona; Spokane, serving Montana, Idaho, Oregon and Washington.

Only one Federal Land Bank is allowed in each district. Each bank is a separate corporation independent in its organization and management, but is under the general supervision of the Farm Loan Board. In the case of each bank there is a directorate composed of seven persons, three of whom are elected by organizations to be described hereafter, known as National Farm Land Associations, three are appointed by the Farm Land Board and a Director-at-large, also selected by the Board from a list of three persons having the greatest number of votes cast for them by the National Farm Loan Associations.

Capital

When each Federal Land Bank was organized, it was organized with a capital stock of $750,000, supplied by the Federal Government. Under the Act, this is automatically increased by five per cent on each loan made. This five per cent is derived by the compulsory sale of stock to each member of a local association who must subscribe, and pay for in cash, five per cent of the amount he desired to borrow. The capital stock, therefore, of each bank goes up and down automatically, depending upon the amount of outstanding loans.

NATIONAL FARM LOAN ASSOCIATIONS

In each federal district, National Farm Loan Associations must be organized by persons desiring to borrow money on farm mortgage security. The persons so desiring must sign articles of association, specifying in general terms the objects for which the association is formed and the territory in which it desires to operate (generally a county). These National Farm Loan Associations thus become incorporated and are the only medium, excepting in very special cases, through which persons desiring to borrow money from the Federal Land Bank can do so. These are, in reality, local semi-co-operative associations, associations of borrowers, who become responsible for initiating all loans in their district. Only persons desiring to borrow money from a Federal Land Bank can become members of one of these associations.

A National Farm Loan Association must consist of ten or more farmers, whose joint applications for loans are not less than $20,000. Each borrower, as

before stated, must subscribe for stock equivalent to five per cent of the desired loan and assume a liability, in case of loss, for an additional five per cent. In other words, the local associations are double liability corporations. For example, should a borrower desire to borrow $1,000 he must buy fifty dollars' worth of stock in the local association and become liable for an additional fifty dollars, in case of failure of members of the local association to meet their obligations. If the farmer has not the money to buy stock, it is deducted from his borrowings.

The affairs of a local association are administered entirely by officers appointed by the association itself. Each borrower has a vote for each five dollar share of stock he holds up to twenty. No one stock holder in the local association has more than twenty votes, no matter what the amount of stock he holds.

Loans Through Agents

In addition to making loans through the local associations, the Federal Farm Loan Act provides that a Federal Land Bank may make loans on farm lands through agents approved by the Board. Such agent must be a bank, a trust company, a mortgage company, or a savings institution, chartered by the state in which it is operating. This privilege may be taken advantage of in sections of the country where there are not enough farmers desiring loans to organize a local association. In the case of a loan through a local association it is endorsed by the association, which becomes liable to the extent of the double liability clause. In the case of an agent, however, the agent must endorse the loan and assume full liability for it. In return for this liability, the agent is allowed a certain percentage per annum on the unpaid capital. This is supposed to give to the agent a security corresponding at least to the double liability security of the association.

It will, therefore, be seen that under the Federal Farm Loan Act, loans are not made by the Federal Land Banks directly to individuals, but only to individuals applying through associations and recommended by them for loans. Every member of the association making the recommendation becomes responsible to the extent of ten per cent of his own borrowings for the total indebtedness of the association. The definite aim of the Federal Land Bank is to keep itself free from direct relationships with the individual and to force the organization, wherever possible, of the National Farm Loan Associations.

Organization of Farm Loan Association

The following illustration will make the process or organization clear. Let us assume that a farmer wishes to borrow the sum of $2,000. He must get at least nine other persons in the community, the total of the borrowings asked for being not less than $20,000, to join him in forming an association.

A meeting of the borrowers is then called and each applicant subscribes for stock to the extent of 5 per cent of the loan he desires. The law requires that five directors be elected each member having the privilege of voting, one vote for each share of stock up to twenty shares. A directors' meeting must then be held and a president, vice-president, secretary-treasurer and loan committee of three members elected, the directors themselves not being members, of the loan committee. All officers must be members of the association, excepting the secretary-treasurer, who must be a person selected especially for his suitability for the work, very often a local bank manager. He is the only officer who receives compensation for his services. When the foregoing has been completed, the group is ready to enter into articles of association. These articles can be obtained from the Federal Land Bank. The signed articles of association

with the applications for loans are then sent to the Bank, which sends an appraiser to investigate the security carried with the loans. After this investigation, if everything is satisfactory, the decision of the Bank is forwarded with a recommendation to the Federal Farm Loan Board, which, although almost always following the advice of the Federal Land Bank, nevertheless has power to refuse the charter. When the Board grants the charter, however, it is forwarded to the association from the Federal Land Bank of its own district. When the appraisals and applications have been fully approved and the charter granted, the loans are forwarded to the secretary-treasurer of the local association, who distributes the funds according to the applications made. As has already been stated, membership in the local association is confined to actual farmers who wish to borrow on a first mortgage basis.

After an association has been formed in a district, should another person desiring to become a borrower under the system, he must make application through the Secretary-Treasurer of the local association and be accepted by a two-thirds vote of the board of directors. By purchasing the amount of stock representing 5 per cent of the desired loan, he becomes a member of the association and his application is forward with recommendation to the Federal Land Bank of his district. An appraiser of the Farm Loan Board is then sent to pass judgment on the loan. This appraisal is submitted to the Federal Land Bank and compared with the appraisal of the local committee. It is then sent to the Farm Loan Board for approval before the loan is made. If the money is granted, the money will be forwarded to the individual from the Bank through the secretary-treasurer of the association of which he has become a member.

Non-resident landowners, landlords, land speculators, or other persons who are not bona fide farmers, are not admitted to membership in these associations and therefore cannot borrow from these banks.

Dividends on Stock

The money paid in for stock is deposited with the Federal Land Bank as additional security for the loans, but dividends are paid upon this stock through the secretary of the association, generally at a rate equivalent to the rate of interest paid for mortgages. The association has the right to allocate a part of this for the expenses of the association. It is a custom in many of the associations to use these dividends entirely for local expenses.

Amount of Loan and Interest Rate

The maximum amount which a farmer may borrow on his farm is 50 per cent of its appraised value for agricultural purposes plus 20 per cent of the permanent insured improvements.

The interest charges of all loans are fixed by law at a maximun of 6 per cent not, however, to exceed the interest charges paid on mortgage bonds sold by more than one per cent. For example, if the last sale of mortgage bonds was made at 4½ per cent then the interest charges could not exceed 5½ per cent. This prohibits the sale of bonds at a rate par of greater than 5 per cent.

Terms of Repayment—Amortization

All loans are repaid on an amortization basis, the borrower having the right to select the number of years for repayment, provided it is not less than five nor more than forty. The working of the amortization plan can, perhaps, be made more clear by taking an illustration. A borrower has $1,000 at 5½ per cent. to be repaid in half-yearly payments in 34½ years. To do this requires an amortization rate of one per cent. in addition to the ordinary interest charges. Assuming the interest charges to be 5½ per cent then the charge, including amortization, would be 6½ per cent. Under the plan, 6½ per cent. of the original

loan of $1,000 viz., $32.50, would be collected every six months. The difference between the interest requirement of 5½ per cent. on the sum due at any given time and the 6½ per cent. on the total borrowing would be credited as an instalment on the principal. The following table will show how it would work out in this particular case:

Principal, $1,000. Rate, 5½ per cent. Semi-annual Instalments, $32.50. Final Instalment, $32 42.

Amortization Table				Amortization Table			
No.	Interest	Principal	Balance	No.	Interest	Principal	Balance
	$ cts.	$ cts.	$ cts.		$ cts	$ cts	$ cts.
1	27 50	5 00	[illegible]	35	19 92	12 58	711 92
2	[illegible]	5 14	[illegible]	36	[illegible]	12 92	[illegible]
3	27 22	5 28	[illegible]	37	19 22	13 28	685 72
4	27 08	5 42	979 16	38	[illegible]	[illegible]	672 08
5	[illegible]	5 57	973 59	39	18 48	14 02	[illegible]
6	26 77	5 73	967 86	40	[illegible]	14 40	[illegible]
7	[illegible]	5 88	[illegible]	41	[illegible]	14 80	[illegible]
8	26 45	6 05	955 93	42	17 29	15 21	[illegible]
9	[illegible]	6 21	949 72	43	16 88	[illegible]	[illegible]
10	[illegible]	6 38	943 34	44	16 44	16 06	581 97
11	[illegible]	6 56	936 78	45	16 01	16 49	[illegible]
12	25 76	6 74	930 04	46	15 55	[illegible]	548 53
13	[illegible]	6 92	[illegible]	47	[illegible]	17 42	531 11
14	[illegible]	7 12	[illegible]	48	14 61	17 89	513 22
15	[illegible]	7 31	908 69	49	14 11	[illegible]	494 83
16	[illegible]	7 51	[illegible]	50	[illegible]	[illegible]	475 91
17	24 78	7 72	893 46	51	[illegible]	19 41	[illegible]
18	24 57	7 93	[illegible]	52	[illegible]	19 94	[illegible]
19	24 35	8 15	877 38	53	12 01	20 49	416 10
20	24 13	8 37	[illegible]	54	11 44	21 06	395 04
21	[illegible]	8 60	[illegible]	55	[illegible]	21 64	373 40
22	23 66	8 84	851 57	56	10 27	22 23	351 17
23	23 42	9 08	842 49	57	9 66	22 84	328 33
24	23 17	9 33	[illegible]	58	9 03	23 47	304 86
25	22 91	9 59	823 57	59	8 38	24 12	280 74
26	[illegible]	9 85	813 72	60	7 72	24 78	255 96
27	22 37	10 13	[illegible]	61	7 04	25 46	[illegible]
28	22 10	10 40	[illegible]	62	6 34	26 16	204 34
29	21 81	[illegible]	782 50	63	5 62	26 88	177 46
30	[illegible]	10 98	771 52	64	4 88	27 62	149 84
31	21 22	[illegible]	[illegible]	65	4 12	[illegible]	121 46
32	20 91	[illegible]	748 65	66	3 34	[illegible]	[illegible]
33	[illegible]	11 91	736 74	67	2 54	29 96	62 34
34	20 26	12 24	724 50	68	1 71	30 79	31 55
				69	0 87	[illegible]	......

The form of note taken in this case by the bank is as follows, and it is held along with a mortgage registered against the property of the borrower:—

Loan No......................

$1 [illegible] ....

For value received......promise to pay to the order of THE FEDERAL LAND BANK OF SAINT PAUL at its office in the city of St. Paul, Minnesota, the sum of

ONE THOUSAND DOLLARS

with interest at the rate of five and one-half per cent per annum, payable semi-annually in manner and form as follows:

In sixty-eight semi-annual instalments of
THIRTY-TWO DOLLARS AND FIFTY CENTS

each, payable on the............day of .... and........ in each year, and a final instalment of

THIRTY-TWO DOLLARS AND FORTY-TWO CENTS

payable on the..............day of..............19.... unless this note shall be sooner matured by extra payments on account of principal, such method of payment being on the amortization plan and in accordance with the amortization tables printed on the back hereof which are hereby accepted and made a part of this note. Extra payments can only be made on the regular instalment due dates. This note is secured by real state mortgage of even date herewith.

If default is made in the payment of an instalment or instalments as herein provided, the same shall bear simple interest from the date of such default at the rate of eight per cent per annum, as provided by the Federal Farm Loan Act.

If default be made in the payment of any instalment or instalments of this note, or if default be made in respect to any condition or covenant contained in the mortgage which secures the payment hereof, then the entire principal of this note remaining at that time unpaid, together with the accrued interest shall, at the option of the holder hereof, become immediately due and payable.

....

....

Under the Farm Loan Act, however, the borrower has the right after five years to repay at any interest payment date such additional instalments of the principal as he may desire.

Section 9 of subsection 12 of the Act, which reads as follows, defines the position of the borrower in relation to defaulted payments and other legal charges:—

> "Every borrower shall pay simple interest on defaulted payments at the rate of eight per centum per annum, and by express covenant in his mortgage deed shall undertake to pay when due all taxes, liens, judgments, or assessments, which may be lawfully assessed against the land mortgaged. Taxes, liens, judgments or assessments not paid when due, and paid by the mortgagee, shall become a part of the mortgage debt and shall bear simple interest at the rate of eight per centum per annum. Every borrower shall undertake to keep insured to the satisfaction of the Federal Farm Loan Board all buildings the value of which was a factor in determining the amount of the loan. Insurance shall be made payable to the mortgagee as its interest may appear at time of loss, and, at the option of the mortgagor and subject to general regulations of the Federal Farm Loan Board, sums so received may be used to pay for reconstruction of the buildings destroyed."

Type of Security

Loans are made only on first mortgages on farm lands and the purposes to which the proceeds of the loan may be put are defined in the Act, as follows:—

> "To provide for the purchase of land for agricultural uses.
>
> "To provide for the purchase of equipment, fertilizers, and live stock necessary for the proper and reasonable operation of the mortgaged farm. The term "equipment" to be defined by the Federal Farm Loan Board.
>
> "To provide buildings and for the improvement of farm lands, the term "improvement" to be defined by the Federal Farm Loan Board.
>
> "To liquidate indebtedness of the owner of the land mortgaged, existing at the time of the organization of the first local farm loan association established in or for the county in which the land mortgaged is situated, or indebtedness subsequently incurred for purposes mentioned in this section."

The term "equipment" has been defined by the Farm Loan Board to include "the implements needed in the conduct of a farm to facilitate its operations. It may consist of teams, as well as machinery, tools and like articles.

The term "improvements" has been defined by the Federal Farm Loan Board as including "anything in the form of a beneficial structure, or any useful, permanent physical change tending to increase productive value, such as clearing, tilling, draining, fencing, building."

Loans Limited

In the original Act, the size of the loans was limited, viz., a minimum of $100 and a maximum of $10,000. In March, 1923, an amendment was passed to the law permitting a maximum of $25,000.

Legal Charges

Certain charges are permitted by the Farm Loan Board to be collected by the association from borrowers as follows:—

(1) An application fee of $10.00 to cover cost of appraisal and the expenses of the local association.
(2) The cost of title research.
(3) The preparation of an abstract.
(4) The recording of papers.

These costs will vary somewhat, depending upon the position of the title of the individual borrower. In the case of clear title, they will be small. Where there are difficulties to overcome and title to be cleared, the cost would necessarily be higher. On the other hand, there are no renewal costs, no bonuses and no recording or mortgage taxes.

Reasons for Share Stock of Local Association

It would appear that there were three main objects in having the purchase of stock made compulsory upon the borrowers:—

(1) To make the local associations more careful in their appraisement of lands and in the persons to be recommended for loans, as all the members are obligated to the extent of ten per cent. of their own borrowing for mistakes made. They would thus be made more anxious to recommend loans with a reasonable appraisement of lands and to insist upon payments of interest and amortization charges on the part of persons who might otherwise be careless.
2. As the sale of farm mortgage bonds was fixed to not exceed twenty times the capitalization of the bank, the collection of 5 per cent. in cash from the borrower for capital stock made it possible for each borrower to capitalize his own loan, so that the capital stock of the bank increases and decreases just in proportion to the amount of the loans issued.
3. To bring into the association only persons of good standing. Special enquiry is made concerning a man's standing in his community and the personal element enters into decisions regarding loans.

As previously stated, the Government originally capitalized each one of the twelve Banks with a sum of $750,000 making a total of $9,000,000 in all. This capitalization does not receive dividends. It is really a loan by the Government without interest to the Banks. All the additional capital is raised by the sale of mortgage bonds, the amount issued not to exceed twenty times the capitalization of the bank. The additional capitalization required in order to increase the sale of the bonds is provided as stated above by the sale to the borrowers of stock representing one-twentieth of the amount they borrow. It will thus be seen that the whole organization is essentially an organization of

borrowers following the German Landschaft, as distinguished from the French Credit Foncier, where the capital of the organization is provided by selling stock to persons seeking investments. There are no outside capitalists making dividends by means of profits. Investors are guaranteed the interest on the bonds by the Federal Land Bank. All other profits, after expenses have been paid, go into a common fund in the interest of the Bank and to pay dividends on the stock held by the borrowers. All bonds issued under this system are exempt from taxation.

Deposits

These Federal Land Banks are not banks in the ordinary sense of the word. They are not permitted to accept deposits of current funds payable on demand, excepting from their own stock holders, nor are they permitted to do ordinary banking business; they are not allowed to loan money on mortgage, excepting through the Farm Loan Associations or under the special provision for agents in districts where there are no Farm Loan Associations; they are not permitted to demand or receive any commission of any kind not specifically authorized under the Act; they are mortgage corporations limited to acting as intermediaries between investors wishing to buy bonds and borrowers wishing to secure money on mortgage. Under the Act, however, the Secretary of the Treasury is authorized, in his discretion, upon request of the Farm Loan Board, to make deposits of federal funds for the temporary use of any Federal Land Bank out of unappropriated money in the Treasury. For such deposit the bank must pay the usual Government deposit rate and must give satisfactory security to the Treasury. A limit was originally fixed at $6,000,000 as an aggregate for such deposits.

During the years 1919, 1920, 1921, the United States Treasury, under authorization of Congress, was permitted to purchase $100,000,000 annually of the bonds of the Farm Loan Board the reason given being that as the Government was selling bonds in enormous quantities for war purposes it preferred to monopolize the market for the time, and so included the Farm Loan Boards' demands with its own. Without question it established a rate for the sale of the bonds.

Sale of Bonds

At first it was arranged that each of the twelve Banks would issue its own bonds in its own market. At the same time the Farm Loan Board fixed the rate of interest to be charged at a maximum of 6 per cent, and required uniformity in rates as far as possible. It was soon seen that these two things were inconsistent with one another. Bonds offered for sale, for example, for the Bank operating in Oregon, could not meet the prices that could be obtained for bonds offered for sale for the Bank in Baltimore or in Springfield. The same general motive that causes interest rates to be higher in the West than in the East, as demanded by mortgage companies, became apparent with respect to the sale of these bonds, and that, as a common rate of interest was to be charged, it would be necessary that some common scheme for the sale of bonds should be arranged. The Act was amended, therefore, unifying the responsibility of the twelve banks for each other's issues, and making possible a central agency, under the authority of the Farm Loan Board, for the purpose of selling all the bonds issued by the various Banks. The selling agency has been organized. The head of it is one of the great bond houses of the United States with which are associated 5 others forming a Syndicate. Under this Syndicate are some 800 smaller bond houses and banks operating through approximately 8,000 selling agents, distributed in all parts of the United States. The Syndicate re-

ceives 1 per cent for selling the bonds and pays $\frac{3}{4}$ of 1 per cent to the sub-agencies for the amounts of their sale. There is now no trouble disposing of all the bonds offered at from $4\frac{1}{2}$ to 5 per cent interest rate for par.

JOINT STOCK BANKS

In addition to the Federal Land Banks operating through the local associations, the Federal Farm Loan Act provides for the incorporation of Joint Stock Land Banks for the purpose of carrying on mortgage business through the issuing of farm loan bonds. These are private corporations, although definite limitation is placed by the Act upon their activities. These banks may be organized by ten or more persons forming themselves into a corporation. They must have a subscribed capital of not less than $250,000, half of which must be paid in in cash, the balance subject to call by the Board of Directors. Their charter is issued by the Federal Farm Loan Board on their complying with these conditions, just as in the case of the Federal Land Banks. They are not allowed to issue bonds until their entire capital stock is paid up.

Further, they are exempt from certain of the provisions laid down in respect to the Federal Land Banks; for example, they are freed from the control of the Farm Loan Board with respect to revisions and alterations of interest rates from time to time, and with respect to the nature of the mortgage. They are also permitted to make loans for purposes other than the purposes defined for the Federal Land Bank, and may operate outside a fixed district. They are allowed also to lend larger amounts than the Federal Land Banks, the limit being $37,500 for Banks with a capitalization of $250,000 and $50,000 for those with larger capital. On the other hand, instead of being permitted, as in the case of the Federal Land Banks, to issue bonds aggregating twenty times their paid-up capital, they are not permitted to issue bonds to exceed fifteen times their paid-up capital and surplus, nor are they aided by grants directly made from the Treasury of the United States. It was intended apparently in the creation of these banks to provide a method of securing farm loans based on a security slightly different from that which the Federal Land Bank was authorized to accept and to trust to the initiative of private enterprise to take risks that could not be permitted under the Federal Farm Loan System. These profit-making institutions were, therefore, created with rather strictly defined modes of operating to enable loans to reach persons who could not be reached by a Federal Land Bank. They may lend to individuals. They function in a slightly different way from the Federal Land Banks, and on the whole are charging higher rates of interest, and, in all probability, taking risks which, as a private enterprise, they feel they can afford to take. They correspond somewhat to the Crédit Foncier.

Growth of Business—Federal Land Banks

Since their inauguration, seven years ago, the business of the Federal Land Banks has had a very rapid development.

On February 29, 1924, the Assets of the Federal Land Bank System stood at.	$936,694,908.00
Mortgage Loans had been made valued at..	832,202,914.00
While the total capital stock was..	44,684,777.00
Of this amount there had been collected from National Farm Loan Associations..	42,432,667.00
In addition there had been paid back into the United States Treasury of the original loan of $9,000,000 for capitalizing the twelve Banks..	7,014,000.00
Dividends had been paid to the National Farm Loan Associations of.. ..	8,828,173.00
And there is a total Reserve and Undivided Profits of..	7,814,341.00
During the months of January and February, 1924, loans were made to the extent of..	35,378,000.00
Farm Loan Bonds were outstanding to the amount of..	865,206,665.00

The loan was distributed to the various banks of the system as follows:—

Springfield	$ 30,967,968.00
Baltimore	41,853,691.00
Columbia	52,292,055.00
Louisville	78,981,846.00
New Orleans	74,885,917.00
St. Louis	60,233,912.00
St. Paul	104,154,746.00
Omaha	97,417,171.00
Wichita	73,690,608.00
Houston	93,516,680.00
Berkeley	36,254,955.00
Spokane	87,908,359.00

Every state in the Union and Porto Rico have received financial assistance through these banks the amount varying from $254,200 for Deleware to $93,-516,680 for Texas. Broadly speaking, the Western States and the newer States on the southwest have benefited most.

Growth of Business—The Joint Stock Land Banks

The Joint Stock Land Banks, under the Federal Farm Loan Board, have been very keen rivals of the Federal Land Banks as the following figures given below will show.

Eighty of these Joint Stock Land Banks have organized since the system began operation.

On February 29, 1924, their assets stood at	$438,397,336.00
They had capital stock paid in to the amount of	34,233,520.00
There were outstanding mortgage loans to the amount of	400,988,343.00
They had Farm Loan Bonds outstanding to the amount of	368,176,900.00

Combining the figures Federal Land Banks and the Joint Stock Banks they show the number of loans made from beginning to be 351,183 and the amount of loans made from beginning, $1,318,843,548.00.

As the total outstanding farm mortgages indebtedness of the United States is now approximately $8,000,000,000 it will be seen that the Banks operating under the Farm Loan Board now hold about 16 1 3 per cent. of the whole. The loans under the system will have to increase materially before the 40 per cent. ratio of Germany will be reached. There can be no doubt, however, but that there has already been a regulatory influence on interest rates.

One further word with regard to the Federal Farm Loan Associations. Approximately 5,000 of these have been organized in the United States and through these have been issued the major part of the loans under the Federal Land Banks as distinguished from the Joint Stock Banks. As previously stated, the object of organizing these local associations was to create a spirit of co-operation among the farmers and to ensure that the administration of the whole system should ultimately be in the hands of the borrowers themselves and not, as in the Joint Stock Company Banks, in the hands of private individuals for the purpose of making profit. I found a good deal of difference of opinion as to the value of these associations, depending, I think, to a considerable extent, upon the temperament of the management of the Land Bank. For example, one bank president quite openly stated that he did not believe that the local associations were of any real value, that the persons in them did not co-operate, that at times it was difficult to get them to meet, in order to pass upon loans that were urgent, and, on the whole, he would prefer to deal with the individuals through the other appointed agencies allowed under the Federal Farm Loan Act. On the other hand, other bank presidents were strongly in favour of the local association, but I found in such cases they had been spend-

ing a good deal of time trying to bring about a spirit of co-operation among the borrowers and were convinced that as the days went by these associations would become a strong conservative influence in maintaining the integrity of the Bank. In the beginning, there was a disposition on the part of the local association members to over-value their property, having, doubtless, the feeling that it was government money they were using and, therefore, were disposed to take as much as would be allowed. This, I was informed, very rapidly disappeared when they began to realize that, in case of loss, they would be called upon under the double liability clause, so that, with the passing of years and a better understanding, these local associations are becoming helpful, not only in their own communities, but helpful also in relation to the Bank.

The two things that stand out as having been definitely accomplished by the Federal Farm Loan system are:—

(1) Equalization of interest, viz., a maximum of six per cent, from the Atlantic to the Pacific. This was only made possible by the establishment of mutual responsibility between all twelve banks and the fact that the scheme being under the supervision of the Federal Farm Loan Board gave confidence to the investing public.

(2) The second is the firm establishment under this system of the principle of amortization of farm loans. It seems worth repeating a statement previously made that the scheme of amortization would not have been valuable in the days when there was plenty of cheap land and farmers could move easily from one place to another for purposes of settlement. Under these circumstances, it might be possible by means of production, in a short period of years, to repay mortgages raised on land at these cheap valuations, but with the increasing valuation of land, the increased capital investment necessary for the purchase of a farm, the old system of short mortgage made the redeeming of a mortgage impossible out of farm production and the United States farmers found themselves in exactly the same position that the farmers of Europe found themselves in one hundred years ago. The establishment of this principle without question will enormously strengthen the position of the American farmer in competition with Europe.

On the other hand, I think it is wise to point out that the Federal Farm Loan scheme was conceived as a business scheme intended to be self-supporting and ultimately free from any lien upon the Government. The result is loans have only been made where the security was of a class to warrant the loan, and under very rigid terms. While the advantage of interest rates and of amortization were made available to the farmers, there was no slackening in the demand for a proper security for the money loaned. This, in my judgment, is the real reason why the Federal Land Banks of the north-western states have not been able to meet the financial needs of these communities. In parts of these states, at least, a condition of affairs has been reached with regard to income from land that makes it impossible for money to be loaned by the Federal Land Banks or any other bank with the security which the law demands. I feel confident that the major part of the complaints made, and there are many, against the operation of the Federal Land Banks, is due to the fact that they have refused to make loans of money against properties that could not offer sufficient security. In other words they have refused to become philanthropic institutions.

2. Short Term and Intermediate Credit

Before entering into a discussion of the organization of the Federal Intermediate Credit Banks, it seems necessary to look broadly at the way the problem of Short Term Credits for Agriculture has been faced in the United States. As stated previously, the agitation for a better scheme of rural credits

involving both mortgage credit and short term credit began many years ago. In fact, the whole movement for the establishment and maintenance of small State Banks had behind it the desire to take advantage of the commercial opportunities which agriculture offered, and, at the same time, to provide better facilities for agricultural credit. An illustration of this can be seen in the Bank Law of the State of Kansas, passed in 1897, which grew out of the agitation which followed the period of depression from 1891 to 1895. The objects and methods of the System, as set forth by one of its authors, is as follows:—

(1) To finance the farm efficiently.
(2) To oversee the investment of money in farms so that it would be made productive.
(3) To supervise the farming operations of the borrower so as to ensure profitable return.
(4) To compel the majority of the directors of the bank to live at the place where the bank is located.
(5) To make the capital small so that it could be put in rural communities, yet having the competition of nearby banks.

It was believed that, with proper local organization and oversight, risks could be taken on individuals which a large bank, without the local knowledge could not afford to take. These banks were deposit banks only, and aimed at using the local capital available in the development of the local community. That these banks have flourished side by side with national and private banks, there is no doubt, and their local intimate relation to the local community has been of immense value. Similar statements could be made with regard to the other State Banking Systems, at least as operated in most of the Western States of America.

The whole matter was brought into prominence again during the crisis of 1907 when so many of the small banks of the United States closed their doors. This was due largely to the absence of a plan by which the banks in the country could adjust themselves in relation to each other. Corresponding to the agitation which led ultimately to the establishment of the Federal Farm Loan Board, there was also an agitation for the securing of better facilities through which capital might flow from one part of the country to another in times of stress. In 1909 a Monetary Commission was appointed by the United States which, after a very intensive study of banking methods in other countries, ultimately brought about the system known as "The Federal Reserve System." It was felt at that time that the scheme of small banks scattered throughout the country, of which there were nearly 30,000, was very effective, in so far as they related to the local community in which they operated. The absence of some centralizing agency was very severely felt, however, especially in times of depression. A competent authority has stated these difficulties as follows:—

(1) Decentralization.
(2) Inelasticity of credit.
(3) A cumbersome exchange and transfer system.
(4) Defective organization as regards relation to the Federal Treasury.

With regard to the first of these, it will be only necessary to point out that the 30,000 banks, each with its cash reserve without any exchange relations other than through the Clearing House, made the flow of capital from one part of the country to another almost impossible, and, as few of these banks had any definite relation to the Treasury, even Government help in emergency times was unavailable.

The Federal Reserve Act which was approved December 23rd, 1913, aimed at overcoming these difficulties. It provided for the establishment of twelve

Federal Reserve Banks, each to operate in one of the twelve Federal Reserve Districts into which the country was divided. In determining the boundaries of these districts, regard was had to the convenience and customary course of the business of the country. Each district was made large enough to provide for the operation of a bank with a minimum capital of $4,000,000. Under the scheme all National banks were required to become members of the System, and State Banks and Trust Companies, which complied with certain provisions laid down by the law, were encouraged to join. Member banks were required to subscribe to the capital stock of the Federal Reserve Bank in their district to an amount equal to 6 per cent of the member bank's capital and surplus.

Only a portion of this has yet been called up, but on November 21st, 1923, the total capital paid into these banks amounted to $110,103,000.

Less than a quarter of the banks of the United States have become members of the Federal Reserve System, but this represents approximately 50 per cent of the total capitalization of the banks of the United States.

Each of the twelve Federal Reserve Banks is managed by a Board of Directors elected from the member banks by a special method devised to be equitable, and are, therefore, democratic in their management.

Above these twelve banks is a central board at Washington known as "The Federal Reserve Board." This Board consists of seven members, including the Secretary of the Treasury, the Comptroller of Currency and five appointed by the President of the United States with the advice and consent of the Senate. In addition, there is a Federal Advisory Council consisting of twelve members appointed by the Board of Directors of the twelve Federal Reserve Banks. The Federal Reserve Board appoints three of the nine directors of each of the Federal Reserve Banks, while in turn each Federal Reserve Bank appoints a member of the Federal Advisory Council, the object being to give complete intercommunication of ideas within the whole system.

Every bank, or banking association, belonging to the Federal Reserve System is required to maintain its entire legal reserve in the form of a deposit in the Federal Reserve Bank of its district. The Federal Reserve Law recognizes only one form of legal reserve, that is, a member bank's deposit in its Federal Reserve Bank. They may keep balances in other banks, but their legal reserve, the reserve which the Government looks upon as the minimum below which the public interest demands that banks should not go, must all be kept on deposit in the Federal Reserve Banks, which thus become the reservoir of the reserve money of the nation. The great purpose to be served by this is that the reserves are so mobilized in the centre of great districts that they are available at points in the country where the demand is greatest for them, the Federal Reserve Banks being permitted to re-discount for one another and for all the member banks of the system.

Much discussion has taken place with regard to the relation of the Federal Reserve to agricultural credit. It is sufficient for our purpose to say that the Federal Reserve Bank, as the other general institutions described in this report, does not do business either directly with individual farmers or with individuals in any other walk of life. The Federal Reserve scheme presupposes that the farmer or other person borrows through his local bank, which, if they are members of the Federal Reserve system, may, in turn, rediscount with the Federal Reserve Bank, the paper received from customers. The Federal Reserve Act places certain limitations on the character of the paper to be discounted, but in reality, as amended in 1919 and 1923, special provision is made for its banks providing a short term credit for agricultural purpose. For example, any Federal Reserve Bank may discount "notes, drafts and bills of exchange issued or drawn for agricultural, industrial or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes." The law does not permit the

reserve banks to discount paper, the proceeds of which are to be loaned to some other borrower, or to be used for current investment or for speculation.

"Agricultural paper is given by the Act an important advantage over commercial paper, since the latter can be discounted only for a period not exceeding 90 days, while paper which is issued or drawn for an agricultural purpose, or is based on live stock, may now be discounted by Federal Reserve Banks even though it has nine months to run from the date of discount. The Federal Reserve Board has made appropriate provision for this in its new regulations in which the definition of agricultural paper has been clarified and broadened so as to incorporate the latest and most liberal principles adopted by the Board in determining what constitutes agricultural paper. Nine months' paper will thus be eligible for discount if the proceeds have been or are to be used by a farmer in any one or more of the steps of planting, cultivating, harvesting, or marketing a crop, or of breeding, fattening, or marketing live stock, and the Federal Reserve Board has held that the marketing of crops or live stock includes carrying them for a reasonable time in order to market them in an orderly manner instead of dumping large quantities on the market at one time in order to get money with which to meet current expenses. Under this provision of the law, member banks which have loaned money for nine months to wheat growers and other farmers for the purpose of raising, carrying, and marketing their crops, will be able to rediscount the farmers' notes with the Federal Reserve Banks."

Further, under the Federal Reserve Act, as amended by the Agricultural Credits Act passed March 4th, 1923, co-operative marketing associations can issue paper which is eligible for discount with maturities up to nine months, if the proceeds of the paper are advanced to members of the association for an agricultural purpose, or are used to pay members for agricultural products delivered to the association, or to finance the association in packing, preparing for market, or marketing products grown by its members. Co-operative marketing associations are permitted to borrow money to be loaned to the individual members of the association under certain restricted conditions. In all cases, credit for agriculture is extended to nine months instead of ninety days, the assumption being that the local bank holds the paper for three months and it is carried by the Federal Reserve Bank for the additional six months. Further, as amended in 1923, the Federal Reserve Banks are permitted to discount sight or demand drafts drawn to finance shipment within the country of nonperishable and readily marketable agricultural products. A limit, however, of ninety days is placed upon such paper. In order to extend the credit facilities of the Federal Reserve System to smaller banks under the Agricultural Credits Act of 1923, provision was made to admit small banks whose capital was 60% of the original requirement, provided that within a given time the capital was built up to the necessary requirement under the Act, and for this purpose such banks were authorized to set aside 20% of their earned income for the purpose of increasing the capital to the necessary standard.

The most important provision, however, of the Federal Reserve Act, insofar as it affected farm loans, was the authorization given to national banks to make loans for a period up to five years secured by land mortgage. I have referred to this previously in discussing the question of the national banks. This was only made possible to the national banks through the Federal Reserve System. The farmers who need long time loans, therefore, can borrow for five years from the national banks on the security of their farm lands, and the Federal Reserve Board has provided in its regulations that at maturity such loans may be renewed for an additional five years, although a national bank is not permitted to obligate itself in advance. I think there can be no doubt that the Federal Reserve System sought to live up to its responsibilities in connection with short term loans to

farmers. When the prices fell for farm products in 1920, they immediately began to increase their loans through the members of the system to help steady agricultural conditions.

For example, it was many months after the great price decline began before the loans made from the bank in Minneapolis to the northwest farmers reached its peak. During the period from March to November, 1920, there was more than $30,000,000 increase in loans made under the system in the country centering on Minneapolis, and at the end of the period, loans had reached the sum of $115,000,000. During the same period the Federal Reserve Banks, located in agricultural districts, increased their loans by more than $500,000,000 and their issues of Federal Reserve notes by a nearly equal amount.

There were two principal causes why the Federal Reserve System did not satisfy the demands of the agricultural districts.

(1) Because a large percentage of the small state banks which do business with the farmers did not become members of the Federal Reserve System, and, therefore, were not able to get the required rediscounting privilege.

(2) Because the length of time for which the rediscounting privilege was allowed was too short to satisfy the farmers's requirements.

The former was the fault of the small banks; the latter, if a fault, the fault of the law itself and not of the administration.

It was because of these circumstances that the agitation took place which brought about the foundation of the Federal Intermediate Credit Banks described on the following pages.

THE FEDERAL INTERMEDIATE CREDIT BANKS

The Intermediate Credit Banks were organized for the purpose of providing credit for periods longer than that granted by ordinary banking operations. They were intended to cover what was spoken of as the barren area of credit between the three to six months provided under the Federal Reserve System and the minimum mortgage term. The Act creating them calls for loans between the period of six months and three years. The Act was passed in the closing days of the 67th Congress, March, 1923, As the transactions of the Intermediate Credit Banks are real banking transactions as distinguished from mortgage transactions, their operations are merely time extensions of the ordinary banking systems of the country, but related specifically to the service of agriculture. It would appear for that reason that they might have functioned more easily under the Federal Reserve System and the reason for not so doing is not quite apparent. They are associated, however, with the Federal Land Bank scheme and under the direction of the Federal Farm Loan Board. Perhaps the chief advantage of this arrangement is the fact that they will be making banking loans to the same people who will be taking mortgages under the Federal Land Banks and there will be some advantage in having the same persons supervising and determining upon credits to be granted for current account that have already dealt with the individuals from the point of view of capital loans. From information which I obtained I concluded that that was the chief advantage of the connection with the Federal Land Banks and perhaps the further reason that the Federal Reserve Board wishes to disassociate itself entirely from the operation of loans made for a longer period than the ordinary term allowed to the Federal Reserve Banks.

Under the Act creating the Intermediate Banks, the Farm Loan Board is given power to grant charters to twelve institutions to be known as Federal Intermediate Credit Banks. It instructed the Board to establish these institutions in the same cities as the twelve Federal Land Banks. The officers and directors of the Federal Land Banks were made ex-officio officers and directors of the several

Federal Intermediate Credit Banks. Such officers were given authority to create the necessary machinery and employ the necessary officers for conducting the business of the Bank as a separate organization from the Federal Land Bank. These Banks were given authority to act as fiscal agents for the United States Government and to perform such duties as the Secretary of the Treasury may prescribe. Accordingly, acting under the authority of the charter, twelve separate institutions were founded in the summer of 1923.

Capital Stock

In order that capital might be provided for the business of these Banks, the United States Government was authorized to subscribe capital stock to the extent of $5,000,000 for each bank and the Secretary of the Treasury was given authority to take up such portion of this stock as might be deemed necessary at any given time. This gave a possible capitalization of $60,000,000 subscribed by the Treasury. On the organization of the banks, the Treasury took up one million dollars capital stock of each of the banks, holding the balance of $4,000,000 in reserve to be taken as needed.

The Federal Farm Loan Board was authorized to apportion the joint expenses incurred in behalf of the Federal Land Banks, the Joint Stock Land Banks and the Federal Intermediate Credit Banks, all under their jurisdiction, among the three institutions. After all the necessary expenses are paid, it is provided that the net earnings shall be divided in equal parts, one-half to be paid into the United States treasury and the balance into the surplus fund until the amount of such surplus shall be equal to the subscribed capital stock of the bank. After this has been accomplished, ten per cent. only of the earnings is paid into this surplus, the balance being paid to the United States as a franchise tax. The monies paid from earnings into the United States treasury are to be used at the discretion of the Secretary of the Treasury, either to supplement the gold reserve held against outstanding United States notes, or to be aplied to the reduction of the outstanding bonded indebtedness of the United States. Should a bank be dissolved, its whole assets become the property of the United States.

Debentures

Under the Act, each Federal Intermediate Credit Bank is allowed to issue debentures up to ten times the original paid up capital and the surplus of the bank. As the original capitalization of the twelve banks was $60,000,000, when fully in operation, they could issue debentures for $600,000,000, making a total available capitalization when the stock is fully paid up of $660,000,000. It is provided, however, that the issue of debentures shall be subject to the approval of the Federal Farm Loan Board and no debenture is to be issued for a period of longer than five years and only as against cash or discounted paper held by the Bank. The rate of interest on debentures was fixed, at most not exceeding six per cent.

No Government Liability

It is specially provided that the United States Government shall assume no liability, direct or indirect, for any debentures or other obligations issued under the authority of the Act. To make this absolutely clear, provision is made that all debentures or other obligations shall contain in "conspicuous and appropriate language" a definite statement that there is no liability upon the treasury of the United States.

Rate of Interest

With regard to the rate of interest charged, definite restrictions are placed upon it. The maximum rate at which debentures may be issued is fixed at six

per cent, although the Farm Loan Board is given the power to determine whether it shall be lower than that, while the Bank itself must not charge a rate of discount of more than one per cent in excess of the last debenture issued. This fixes a maximum of seven per cent on discounted paper. In discounting paper for such organizations as shall be described hereafter, the Federal Intermediate Credit Bank is not permitted to discount for any borrower who charges a rate of interest of more than one-half of one per cent above the discount rate fixed by the Intermediate Credit Bank. The Bank is permitted to purchase in the open market at par, or below, its own debentures before maturity.

Discounting Privileges

These Banks are allowed a very considerable discretion in the matter of bank business. For example, they are allowed to discount for or purchase from any National Bank or any State Bank, trust company, agricultural credit corporation (hereafter described) incorporated live stock loan company, savings institutions, co-operative bank, co-operative credit or mortgage association of agricultural producers, organized under the laws of any State, with their endorsement, any note, draft, bill of exchange, etc., or other such obligation, the proceeds of which have been advanced in the first instance for any agricultural purpose or for the raising, breeding, fattening or mortgaging of live stock.

They are further authorized to make loans or advances direct to any co-operative association organized under the laws of any state and composed of persons engaged in producing, or producing and marketing staple agricultural products or live stock, if the notes or other such obligations representing the loans are secured by ware-house receipts, or shipping documents, or both, covering such products, or mortgages on live stock, provided that the loan does not exceed 75 per cent of the market value of the product. The only restriction placed upon the amount of such discounted paper which the Federal Intermediate Bank can hold is the limitation (1st) of its own capitalization, and (2nd) no institution can rediscount for more than twice the amount of its unimpaired capital and surplus.

Mutual Liability

As in the case of the Federal Land Banks, mutual liability is established as between the twelve Banks. Clearly, the purpose of this is to enable the banks to secure equal credit facilities in the money markets of the country. This liability is set out in Section 207 of the Act, as follows:—

> "That any Federal Intermediate Credit Bank issuing debentures or other such obligations under this title shall be primarily liable therefor, and shall also be liable, upon presentation of the coupons for interest payments due upon any such debentures or obligations issued by any other Federal Intermediate Credit Bank and remaining unpaid in consequence of the default of the other Federal Intermediate Credit Bank. Any Federal Intermediate Credit Bank shall likewise be liable for such portion of the principal of debentures or obligations so issued as are not paid after the assets of such other Federal Intermediate Credit Bank have been liquidated and distributed. Such losses, if any, either of interest or of principal, shall be assessed by the Federal Farm Loan Board against solvent Federal Intermediate Credit Banks liable therefor in proportion to the amount of capital stock, surplus, and debentures or other such obligations which each may have outstanding at the time of such assessment. Every Federal Intermediate Credit Bank shall, by appropriate action of its board of directors duly recorded in its minutes, obligate itself to become liable on debentures and other such obligations as provided in this section."

The tax exemption privilege accorded to debentures issued under the Federal Land Banks is also granted to the debentures issued under the Federal Intermediate Credit Banks. This is set forth in Section 210 of the Act, as follows:—

> "That the privileges of tax exemption accorded under Section 26 of this Act shall apply also to each Federal Intermediate Credit Bank, including its capital, reserve or surplus, and the income derived therefrom, and the debentures issued under this title shall be deemed and held to be instrumentalities of the Government and shall enjoy the same tax exemptions as are accorded farm loan bonds in said section."

The scheme of the Federal Intermediate Credit Banks with regard to the individual borrower is identical with that under the Federal Land Banks, that is to say, no individual can have direct access for borrowing purposes to the Bank. All loans made must be rediscounted loans made to a responsible corporation which in itself assumes responsibility for the repayment of the loan, so that a borrower must find his way to the Federal Intermediate Credit Bank through other organized financial machinery. In order to make comprehensive machinery for this purpose, the Act authorizes the creating of

NATIONAL AGRICULTURAL CREDIT CORPORATIONS

These are organizations corresponding to the local associations under the Federal Land Bank. These National Agricultural Credit Corporations, however, are much more highly organized institutions than the local associations under the Federal Land Banks.

The manner of the formation of these organizations is described in the Act as follows: "That corporations for the purpose of providing credit facilities for the agricultural and live stock industries of the United States, to be known as National Agricultural Credit Corporation, may be formed by any number of natural persons, not less in any case than five. Such persons shall enter into articles of association which shall specify the object for which the corporation is formed. Such articles of association shall be signed by the persons intending to participate in the organization of the corporation and be forwarded to the Comptroller of the Currency to be filed and preserved in his office."

The organization certificate and the articles of association must be acknowledged before some judge of a court of record or notary public before submission to the Comptroller of the Currency for approval. On the approval of the Comptroller of the Currency, such an association becomes a corporate body with well defined powers in relation to financial operations. For example, they are allowed:—

(1) To make advances upon, to discount, rediscount, or purchase and to sell or negotiate, with or without its endorsement of guarantee, notes, drafts, or bills of exchange and to accept drafts or bills of exchange, which (*a*) are issued or drawn for an agricultural purpose or the proceeds of which have been or are to be used for agricultural purposes, (*b*) having a maturity at the time of discount, purchase, or acceptance not exceeding nine months, and (*c*) are secured at the time of discount, purchase or acceptance by warehouse receipts or other like documents, conveying the title to non-perishable and readily marketable agricultural products, or other instruments of like guarantee.

(2) To make advances upon, or to discount, rediscount, or purchase and to sell or negotiate with or without its endorsement or guarantee notes secured by chattel mortgages, conferring on first lien upon maturing, or breeding live stock or dairy herds and having a maturity at the time of discount, rediscount, or purchase not exceeding three years.

(3) To subscribe for, acquire, own, buy, sell and otherwise deal in treasury certificates of indebtedness, bonds or other obligations of the United States to such extent as its board of directors may determine.

(4) To act when requested by the Secretary of the Treasury as a fiscal agent of the United States and to perform such services as the Secretary of the Treasury may require in connection with the issue, sale, redemption or re-purchase of bonds, notes, treasury certificates or other obligations of the United States.

There is much additional authority given for conducting ordinary business, but the most out-standing one is their right, subject to regulation of the Comptroller of the Currency, to issue collateral trust notes or debentures with maturity not exceeding three years and to pledge as security for such notes or debentures financial paper held by the corporation. It is specially stated, however, that "the United States Government shall assume no liability direct or indirect for any debentures or other obligation issued under this title and all such debentures and other obligations shall contain in conspicuous and appropriate language to be prescribed in form and substance by the Comptroller of the Currency and approved by the Secretary of the Treasury, a clear indication that no such liability is assumed."

Capital Stock

The National Agricultural Credit Corporation is not permitted to do business until it has paid up capital of $250,000; which must represent at least 50 per cent of the authorized capital stock of the corporation. The remaining 50 per cent must be paid within six months after the beginning of business. Such a corporation is allowed to make loans to the extent of ten times its paid up capital.

Rate of Interest

With regard to interest rates, it must submit to the laws of the state in which the corporation is located. A special penalty is imposed, should at any time, or by any means, direct or indirect, a rate of interest be charged greater than that allowed by the State law. If this is knowingly done, the corporation forfeits the entire interest of the debt and has no power of collection and, further, the person who was charged the interest, if paid, has the right to recover in action twice the amount of the interest thus paid to the corporation, provided legal action is commenced within two years—a very definite and rigid provision.

I think sufficient has been said to show that the National Agricultural Credit Corporations are intended to occupy a very large place in the financing of agriculture. While they function through the Federal Intermediate Credit Banks and constitute an intermediary between the bank and the individual, they differ entirely from the local associations under the Federal Land Bank in that they are private corporations for profit-making purposes, doing business for agriculture under certain definite restrictions with regard to interest charges and security placed upon them by the Treasury of the United States.

Credit Corporations Formed by Banks

There is one special provision to which, perhaps, attention should be called, viz., that any particular bank of the Federal Reserve System may file application with the Comptroller of the Currency for permission to invest an amount not exceeding in the aggregate ten per cent of its capital stock and surplus in the stock of one or more of the National Agricultural Credit Corporations. As a matter of fact, while it may have been intended orginally that these corporations should be corporations formed from among the larger producers on the land

and local financial men, in many localities the banks have taken the initiative in their organization, the reason for this probably being that while the banks themselves are only permitted to rediscount with the Federal Intermediate Credit Banks up to twice their paid up capital and surplus, these institutions are permitted to re-discount up to ten times their paid up capital and surplus. The debentures issued by these corporations are not free from taxation, but are subject to the laws of the state in which they operate.

There has not yet been time to determine to what extent these institutions will function as practical institutions. So far as I know the only ones operating were organized through the agency of the banks for the purpose above mentioned.

The twelve Federal Intermediate Credit Banks were promptly organized after the passage of the Act, March, 1923. The following figures will show how far they have functioned as business organizations. The statements are as at February 29, 1924.

Direct loans and discounts have been made to the amount of. $41,409,368.00

This amount was loaned out at the banking centres as follows:—

Springfield	$ 627,950.00
Baltimore	6,511,150.00
Columbia	4,683,355.00
Louisville	2,210,406.00
New Orleans	6,164,816.00
St. Louis	1,176,607.00
St. Paul	2,659,620.00
Omaha	3,262,258.00
Wichita	4,465,676.00
Houston	3,433,177.00
Berkeley	5,061,240.00
Spokane	1,163,107.00
These banks had outstanding on the same date debentures amounting to	31,750,000.00

These debentures are short term debentures and are sold generally to banks for short time investments. The price so far has been good, as the Government capitalization of $60,000,000 gives them special security. No one can foretell what would happen should their sale greatly exceed that amount. It is difficult to say what the future has in store for them, as the lengthening of the Federal Reserve discount time to nine months may greatly interfere with their development.

War Finance Corporation

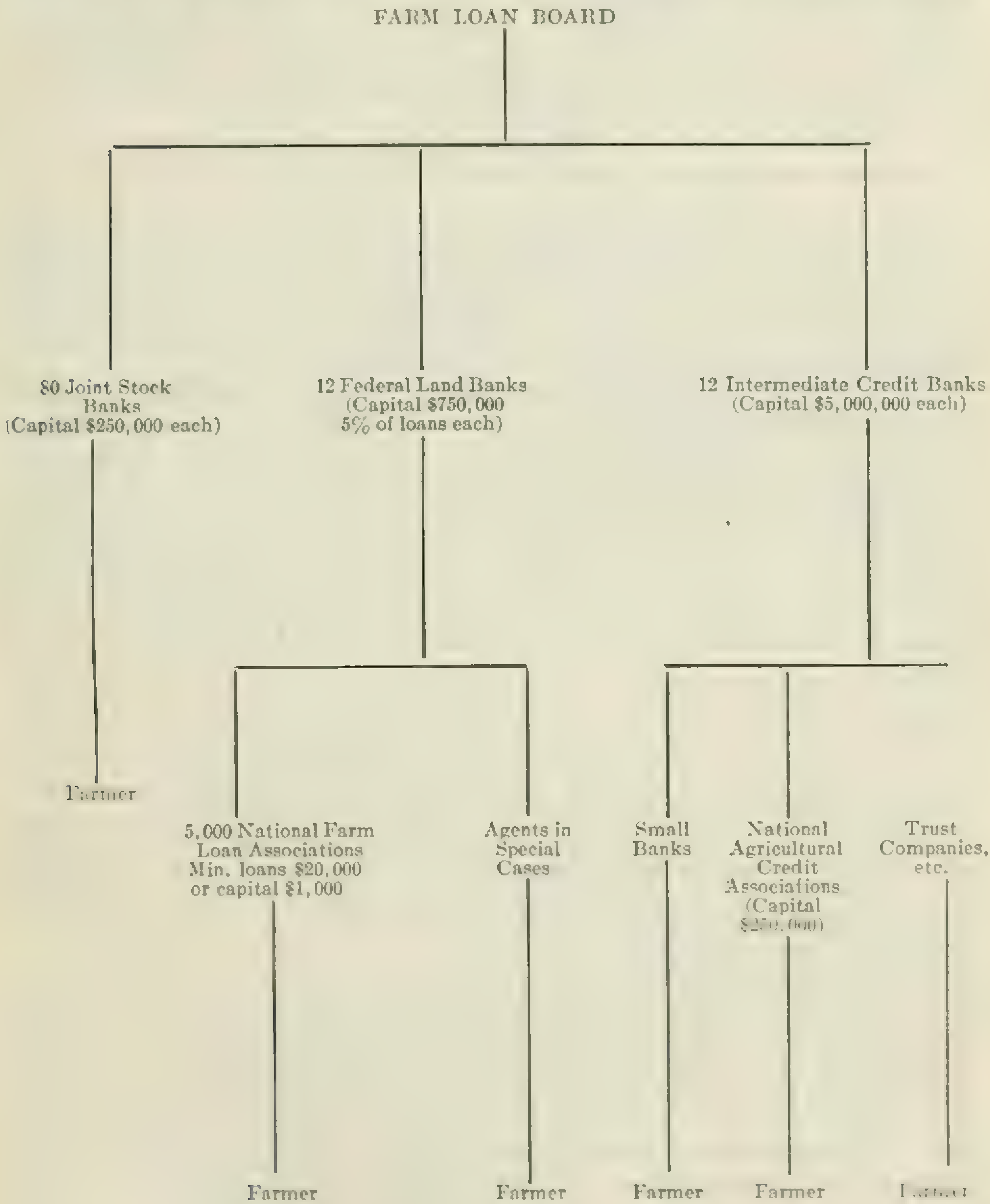
In the foregoing I have not discussed the operation of the War Finance Corporation, which, by assisting the small banks, and co-operative organizations and Live Stock Loan Companies, has co-operated in carrying agriculture for the past few years. It is not part of the permanent financial system of the country. It was intended to close its operations on the 1st of February, 1924, but because of agricultural conditions in the Northwestern States, Congress recently extended its life until 31st December, 1924. The figures in connection with its work will, however, be of significance as during its existence it has been a very great assistance in financing agriculture.

From the time authority to make loans to agriculture was granted in August, 1921 to November 20, 1923, advances in the interest of agriculture were made as follows:—

To banking and financial liabilities	$169,708,000
To Live Stock Loan Companies	80,096,000
To Co-operative Marketing Associations	37,936,000
Making a total of	287,740,000
Of this there has been repaid	211,345,000
Outstanding	76,395,000

Like all the other institutions described, the War Finance Corporation acts only through organized financial institutions.

The following diagram shows the relation of the various institutions to the Farm Loan Board and to each other, with the minimum capitalization. Tracing backward, it also shows the steps through which the application of the borrower must go to secure final action. It will be seen that except in the case of the Joint Stock Banks which are private institutions under special regulations, the farmer only gets access to the lending authority through local organizations.



Rural Credits by State Governments

In addition to the provisions made, as set forth in the foregoing, under the Federal Government, many of the State governments of the United States have arranged for mortgage loans, some of these making provisions to raise money by debentures and others authorizing the State Treasury to make loans from special funds, generally from the permanent educational funds of the state.

The States of Idaho, Indiana, Iowa, North Dakota, Oklahoma, Oregon, South Dakota and Utah have made provision in their constitutions for loaning money to farmers on mortgage credit. Most of these make their loans out of certain specified funds, generally, however, the permanent eductional funds of the State, or monies derived from the sale of State lands. Considerable sums of money have been lent out under these various provisions. There are a few, however, that I think deserve special mention.

The State of Arizona, in 1915, passed a law authorizing loans to be made in farm mortgages from the monies secured from the sale of lands owned by the State.

A State Land Settlement Act was passed in the State of California in 1917, having for its purpose ' the permitting of closer agricultural settlement, assisting deserving and qualified persons to acquire small improved farms, providing homes for farm labourers, increasing opportunities under the Federal Farm Loan Act and demonstrating the value of adequate capital and organized direction in subdividing and preparing agricutural land for settlement."

Perhaps the most conspicuous examples of this sort of effort are to be found in South Dakota and Minnesota. In South Dakota, the State constitution provides that permanent school funds may be invested in first mortgages on farm lands and, under this provision, over six million dollars had been loaned on mortgages before 1912. In 1917, however, the legislature passed an Act establishing a system of rural credits for the State, creating the Rural Credits Board for the purpose of "maintaining a system of rural credits and providing for the loaning of money by the State of South Dakota upon real estate within this State," and, in addition, "authorizing the State of South Dakota to borrow money on its warrants and bonds secured by the good faith and credit of the State."

The purposes for which these loans may be made are almost identical with the purposes stated in the Act creating the Federal Farm Loan Board. There is this distinction, however, that loans may be made up to *seventy per cent* of the value of the land and forty per cent of the insured value of the improvements as against fifty per cent and twenty per cent under the Farm Loan Act. Loans run from five to thirty-five years and are paid on the amortization principle. I have not been able to get the exact amount of loans under this scheme, but I was informed that it probably amounts now to $40,000,000. As the interest charges must be paid by the Government, the State is at the present moment embarrassed, as a consequence.

The State of Minnesota, in 1923, passed an Act creating a rural credit system "for the loaning of money by the State of Minnesota upon real estate within the State, authorizing the State of Minnesota to borrow money on its certificates and bonds secured by the good faith and credit of the State for the purpose of maintaining such system of Rural Credits." Here again the provisions regulating the purposes of loans are almost identical with those of the Federal Farm Loan Board. They provide for the purchase of equipment and live stock, buildings on improved farms, liquidating indebtedness on farms, and for part payment of the purchase price of improved farms, provided always that the property is occupied by the owner. Loans are limited to sixty per cent of the value of the land plus thirty-three per cent of the value of the improvements and the limits between

which loans may be made are $500 and $15,000. The money in this case, as in South Dakota, is raised directly by the State Treasury and made available to the board of management for loans. This system has been in operation for less than a year, but has already loaned out approximately eight million dollars with a limit to their borrowings for the time being of forty million dollars. In January, 1924, Minnesota was disposing of its bonds at 4½ per cent par and was making an additional bond issue for this purpose of ten million dollars. Loans were being made to farmers on an amortization scheme for 35½ years at 5¼ per cent interest plus amortization charges, ¼ per cent less than the Federal Farm Loan Board. In reality, this Minnesota system is just duplicating the work of the Farm Loan Board and was brought about because of the conviction on the part of some people in the legislature that the Farm Loan Board was not generous enough in its lending policy and because the machinery through which it was working was said to create delays in the securing of loans.

The total amount advanced on Farm Mortgages under the various State systems is at the present moment not far short of $100,000,000.

In concluding this section, I think a word about the general financial condition of agriculture in the United States may be permitted. In spite of all that has been done to provide credit, great distress still prevails, especially in the western and north-western states. As none of the larger organizations under Government auspices are permitted to deal directly with the individual, an effort is now being made to find a more direct way to help, especially in assisting those in the grain growing areas, who wish to develop diversified farming. A bill to grant $50,000,000 for this purpose was recently defeated by the Senate of the United States. The President has appealed to the Chairman of a new financial organization known as the Agricultural Credit Corporation, capitalized at $10,000,000, to undertake the responsibility of individual loans, suggesting that under proper regulations, the War Finance Corporation would be willing to make substantial advances for the purpose.

In the meantime, there is a great exodus from the land to the cities, especially in the above mentioned states. In his report to the President on the matter, Mr. Henry C. Wallace, Secretary of Agriculture for the United States, stated that over a million people left the land in 1923. Recently, representatives of a number of the leading farm organizations in the United States have published an open letter to "the President, the Congress and the People of the United States", in which the statement is made that farmers were forced from their homes during 1923 at the rate of 100,000 per month and "the process still is under way in all its cruelty". "Country conditions", it is said, "cannot be told in words. The hundreds of broken banks are real, but the suffering which followed them is hidden in the haze of distance. Unceasing toil of millions of people, futile attempts to protect family and property is lost without recognition. The reason for all this remains unchecked, although it has existed for five years.

"The cause is evident. A disordered world emerging from war and handicapped by man-made barriers across channels of international trade proves unable to absorb the surplus production of our farms and our industry at prices commensurate with American standards. An elaborate structure of economic protection is provided for industry and labour but does not reach the farmer.

"The remedy is as obvious as the cause. It rests in the application of effective protection of the farm equally with those of other industry. The establishment of domestic markets for farm crops on an American basis, apart from world conditions, to conform with like markets already provided for American manufacture and American labour."

The remedy proposed is that the United States should shut herself off from trade contact with the outer world. This would appear to be the remedy of

despair. In reality, there are two causes, one of which is touched upon in the foregoing quotation, viz., the disorganized state of the world markets, resulting from the world war and the inability of Europe to feed herself at the American cost of production. The second cause, however, is found in the fact that during the war, the high prices of products led to the purchase of land under conditions which made profitable cultivation impossible in normal times. This was further accentuated by the agricultural development of areas for cereal crops, hitherto unused and wholly unsuited for the purpose. I would respectfully suggest that in this there is a lesson here for Canada.

SECTION V

RURAL CREDIT IN THE DOMINION OF CANADA

The discussion of the problems in connection with rural credit in Canada is of long standing. Many years ago, in some of the provinces of Canada an effort was made to meet the requirements of the small town and country districts by means of a system of small banks. For reasons which it is unnecessary to discuss in this report the scheme failed in Canada and our banking history, as a consequence, runs along a line entirely different from that of our friends in the United States. Canada followed the European especially the English tradition of establishing large central banks, operating through branches established in localities where the establishment of such branches appeared to be warranted economically. The Canadian banking system went through a period of ups and downs as did the banks of the United States, having its times of great success and periods of prosperity and its times of failure in periods of great depression. In the early days the demand among the farmers for credit from the banks was not great, but, as the days went by, the same kind of conditions that produced the increased demand for Agricultural Credit in the United States increased the demand in Canada and the agitation in favour of a special system for financing agriculture followed closely the history of the same movement in the United States.

Up to the present time no general system of Agricultural Credit either for Long Term or Short Term Credit has been established. Efforts have been made from time to time to secure legal standing for Co-operative Credit Societies on the European model, but have so far failed of recognition, as far as the Federal Parliament is concerned.

On three occasions bills have been presented to Parliament, but did not secure authorization. These bills were:—

1. Bill 26, 1909-10. An Act Respecting Co-operative Credit Societies.
2. Bill 11, 1910-11. An Act Respecting Co-operative Credit Societies.
3. Bill 194, 1914. An Act Respecting Co-operative Credit Societies.

So far, therefore, as the Federal Parliament is concerned, organized Long Term Credit is a private enterprise in the hands of the mortgage companies and insurance companies and Short Term Credit in the hands of the banks. No effort to meet the requirements of what is called Intermediate Credit has been made, except by the banks.

In most of the provinces of Canada, however, efforts have been made to organize all these forms of credit. These efforts are discussed in what follows.

British Columbia

So far as I am aware, the first effort to establish some system of Rural Credits in Canada was tried out in British Columbia. In 1897-8, a demand was made in the Province of British Columbia for cheaper money than that provided by the ordinary banks and loan companies for agricultural purposes and an Agricultural Credits Act was passed by the British Columbia Government in 1898. This Act was based on the agricultural system of Germany. Its author was Mr. R. E. Gosnell, who was then in the service of the British Columbia Government. Under this Act, the Government of British Columbia took power to loan money to associations of farmers of twenty or more members

for specific purposes, including fencing, draining, purchase of live stock, farm implements, etc., to persons, who, having pre-empted land, had worked upon it long enough to secure their grant from the Crown as well as to other farmers who had already had their lands under cultivation.

The scheme was an unlimited liability scheme. The money was to be loaned to an association of borrowers, who, following the practice of the Raiffiesen system in Germany, were authorized to loan money to members on the endorsation of two or their number. The Government undertook to loan to the Association at 3½ per cent and to allow the Association to charge its members 5 per cent, the 1½ per cent margin being allowed for expenses and to create a reserve fund for possible losses. This Act was passed as a result of a good deal of agitation, but no loans were ever made under it for the simple reason that the farmers were not prepared to accept the co-operative principle involved in it.

Later on, two special Acts affecting agriculture were passed and, with amendments made from time to time, are still in operation in the province. The first was passed on March 6th, 1915, and is entitled "An Act Respecting Agriculture and Providing for the Incorporation and Organization of Agricultural Associations and Making Provision for Agricultural Credits". It is cited as "The Agricultural Act, 1915". The other, passed in May, 1917, is entitled "An Act to Promote Increased Agricultural Production" and is cited as "The Land Settlement and Development Act". Both of these acts provide for Long Term Mortgage Credit and also for Short Term Credit under certain specified conditions.

Agricultural Act, 1915

Under this Act, there is created an Agricultural Credit Commission, consisting of a superintendent who shall be, ex-officio, a director, and four other directors, who together constitute a body corporate with the usual powers to conduct a lending business as described in the Act. The superintendent holds office for ten years, unless removed as the result of action in the Legislative Assembly. Two of the directors are appointed for a period of ten years under the same conditions, but they must be engaged in the occupation of farming; the other two directors are the Deputy Minister of Finance and the Deputy Minister of Agriculture.

All regulations made by the commission for the conduct of business, all fees payable, etc., are subject to confirmation by the Lieutenant Governor in Council. Provision is made for the usual methods of carrying on the business of such an organization.

Working Capital

The Working Capital of the Commission is such as is raised from time to time by the issue of securities and such money as may be appropriated from time to time by the Legislative Assembly and such money as otherwise becomes available under repayment and other funds. All securities sold are sold by the Department of Finance of the Province and are unconditionally guaranteed by the Province. The Board works in the closest possible association with the provincial authorities. It, however, is authorized to keep its own accounts and to make its own banking arrangements subject to the approval of the Government. Provision is made in the usual way for sinking funds and reserve funds to cover accruing securities.

Under the Act, the Commission is authorized to accept as security for loans first mortgages upon agricultural land in the Province of British Columbia free from all encumbrances, liens, and other interests, except where special provision is made to the contrary.

The loans are made for the following purposes:—

(*a*) The acquiring of land for agricultural purposes and the satisfaction of encumbrances on land used for such purposes;

(*b*) The clearing of land, draining, dyking, water-storage and irrigation works;

(*c*) The erection of farm buildings;

(*d*) The purchase of live stock, machinery and fertilizers;

(*e*) Discharging liabilities incurred for the improvement and development of land used for agricultural purposes and any purpose calculated to increase land productiveness;

(*f*) And any purpose which in the opinion of the Commission will increase the productiveness of the land in respect of which the loan is proposed;

(*g*) Carrying out the objects of any association, subject to approval by Order in Council as hereinafter provided;

(*h*) Taking over in whole or in part and with the approval of the Lieutenant Governor in Council, by Order in Council, any existing loan by the Crown in right of the Province of British Columbia to any association or any debentures issued by any association.

No loan is granted for an amount exceeding sixty per cent of the appraised value of the land offered as security for the loan, the value to be calculated on the basis of productiveness.

Loans are granted only to persons engaged in agricultural pursuits, and all officers and directors of the company are prohibited from receiving loans.

Loans may be made as long term loans or as short term loans or for a single season, in every case being covered by the mortgage. The rate of interest is not fixed, but it must not exceed more than one per cent of the actual interest paid on the securities upon which the money was raised. Long term loans must be paid back by amortization in either 36½ years, 30 years or 20 years. Short term loans must not exceed in amount $2,000 to an individual or $10,000 to an association. Such loans must not be for less than three years or more than ten. Single season loans may be made secured by promissory note and by a mortgage, the total amount to a person or individual being the same as above.

Power is given under the Act for increasing loans on a basis of improved condition of property or in recognition of instalments already paid.

Rigid provision is made in case of a loan not being applied to the definite purpose for which the loan was granted. The Commission may by giving one month's notice enter upon the property and sell either by private sale or public auction without recourse to law the property of the borrower.

Up to the end of 1922, loans were granted under the Act amounting to $1,073,300.00, and there was outstanding $691,250.00 with overdue interest amounting to $32,152.53.

Most of the money loaned has been used in refunding accumulated debts. The Act has not produced satisfactory results.

When the Agricultural Act of 1915 was passed, previous Acts bearing upon the same subject were repealed.

Land Settlement and Development Act, 1917

The Land Settlement and Development Act was passed in May, 1917, and amended in 1918, 1919 and 1920. Under this Act, there was created in the Department of Agriculture or in the Department of Lands, as might be determined by the Lieutenant Governor in Council, a Land Settlement Board, consisting of one or more members appointed by the Lieutenant Governor in Council.

To this Board, on the authority of the Lieutenant Governor in Council, the Minister of Finance is authorized to pay from time to time, out of the consolidated revenue of the Province, any monies appropriated by or under authority of the Legislature for the purposes of the Board. These advances are to bear interest at a rate fixed by the Lieutenant Governor in Council from time to time.

All salaries and other expenses incurred by the Board for the administration of the Act are paid out of the money so advanced.

The Board is authorized to make loans, subject to the regulations of the Board to any person or association on first mortgage security upon agricultural land in the province, if it be free from encumbrances other than liens to the Crown, that is to say:—

(*a*) Land held in fee simple.
(*b*) Land held by record of pre-emption under the Land Act.
(*c*) Land held by certificate of purchase on deferred payment.

Further, the Board is authorized to make loans by security on mortgage to Associations incorporated under the Act of 1915 of a sum not exceeding 60 per cent of the cash value of the Association's property.

Under this Act, loans are made for the following purposes:—

(*a*) For any purpose which in the opinion of the Board will maintain or increase agricultural or pastoral production;
(*b*) For carrying out the objects of any association, subject to approval by Order in Council;
(*c*) For taking over in whole or in part, subject to approval by Order in Council, any existing loan advanced by the Crown in right of the province to any association or any debentures issued by any association.

Before the granting of a loan, certain definite regulations with regard to valuing security have to be carried out.

All mortgages under this Act contain the personal covenant of the borrower. The borrower is also required to keep insured all destructible property.

The rate of interest on these loans is fixed from time to time by the Lieutenant Governor in Council, but must not exceed by more than one-half of one per cent the actual amount paid by the Government for the money.

Two kinds of loans are made:—

(1) Loans which may run either 25, 20 or 15 years, the annual collections being sufficient to amortize the loan within the period.
(2) Loans which may run from three to ten years and are described as short-dated loans.

These loans are limited in amount not to exceed $5,000 to an individual or $10,000 to an association. They are not amortizable, but are subject to the conditions created by the Board.

Under this Act, in case of default in making payment, the Board may enter upon the property for collection without recourse to a court of law.

Under this Act, there was outstanding at the end of 1922, on principal, $627,615.00, and overdue interest of $34,486.00.

Under both of these Acts, the money borrowed has been used largely in paying off existing liabilities, generally in favour of mortgage companies.

It is stated by the British Columbia authorities that the most satisfactory borrowers are those starting on new land with a certain amount of capital, in which case the loan is made for some specific improvement.

These organizations are apparently not destined to play a very important part in the farm mortgage business in British Columbia.

Quebec

The first successful effort to introduce the principle of the small bank for rural purposes in Canada was made in the Province of Quebec. The late M. Alphonse Desjardins, a resident of the town of Lévis, after a careful study of the systems of small banks in operation in Europe, decided to introduce into Quebec a system of "People's Banks", the "Caisses Populaires" after the model of the "People's Banks" in Italy.

The first bank was organized under the scheme on December 6th, 1900, in the town of Lévis.

The conditions making possible the success of such a scheme were present in the Province of Quebec as in no other province in Canada. The social, racial and religious unity that exists there made it easy for groups of people to co-operate on a common idea.

These banks were finally organized by law and operate under the Quebec Syndicates Act passed in 1906 and amended in 1919. Since 1915, they are obliged to make an annual report on their operations to the Secretary of the Province and the Bureau of Statistics is obliged to collect and compile reports for publication in the statistical year-book.

These banks are not strictly rural institutions, that is to say, they admit to membership persons who are other than farmers, but, in reality, they work out to be more largely in the interest of farmers than any other class, because of the high percentage of farmers composing the membership. While they do not specially aim to do mortgage business, loans are made on first mortgage on immovable property. In addition, they make loans to their members on personal security.

Each bank works in a small restricted area, where the personal character and integrity of the individuals are well known, so that the risk on loans is exceedingly small. The capital for the individual banks is raised by selling shares of five dollars each and by receiving deposits, upon which savings bank interest rates are paid. Both shares and deposits may be withdrawn on demand. The liability of the shareholder of the bank is limited to the value of his shares in the bank. It was believed by Mr. Desjardins that it would be impossible to have an unlimited liability scheme in Quebec as in Europe and that was probably his real reason for selecting the Italian model rather than the German model for his banks.

Management

Each bank is administered by a board of management composed of at least five members. There is a committee on credit composed of at least three members. This committee examines and approves, or disapproves, the loans requested by shareholders. None but shareholders are allowed to borrow. There is a board of supervision composed of three members, who are responsible for checking the value of the securities and checking accounts. No member of any board is permitted to borrow. They give their services gratuitously. All officials are obliged to reside in the parish or city where the bank is founded. The manager may be paid a salary.

Each bank is required to deposit at least ten per cent of its annual net profit in a reserve fund. The balance is distributed among the shareholders as a bonus or dividend. The shareholders receive a dividend on their investment, varying from 4½ per cent to 8 per cent. Depositors are paid from three to four per cent. on their deposits.

In 1922, there were 111 of these banks in existence in Quebec, with 32,173 shareholders or members. 30,583 persons held deposits in these banks. Loans

were granted that year to the number of 13,367 and to the amount of $2,891,092. The total business transactions for that year amounted to $11,148,323.00 and the profit realized on the transactions was $334,395.00

The one thing necessary to make this system complete, following the European model, would be a central bank through which the individual banks could co-operate in the interests of each other.

When it is recalled that, when the first bank was started at Lévis on December 6th, 1900, the total first collections amounted to $26.00 and that this bank in 1922 had on loan $304,043.84 to over one thousand borrowers and showed a gross profit for the year of $64,243.00, while the entire system had done business as stated above, I think it would be admitted that this is a financial achievement of a very high order and justifies the faith of Mr. Desjardins and his associates when, in order to relieve the small farmers and working people of the Province of Quebec from the pressure of high interest rates, they undertook to found the system of People's Banks.

Nova Scotia

The next legislation in Canada in the direction of organizing rural credit was passed in Nova Scotia in 1912, entitled "An Act for the Encouraging of Settlement on Farm Lands". This Act was amended in 1913 and again in 1915 and again in 1919. In addition, a special Act was passed in 1919 entitled "An Act to Provide Loans to Agriculturists upon the Security of Farm Mortgages".

Long Term Loans

Under the Act of 1912, "An Act for the Encouraging of Settlement on Farm Lands", and its amendments, the following methods are provided for making loans to settlers or farmers:—

(a) Through the medium of a loan company through which a borrower can obtain up to eighty per cent of the appraised value of the farm land to be mortgaged, the Governor in Council giving the company a guarantee against loans up to forty per cent of the appraised value of the farm.

(b) The Governor in Council is authorized to purchase real estate in farming districts, sub-divide it into farms or lands, repair, alter, or erect buildings and till and seed the land and sell the real estate, stock and improvements to settlers. Any approved loan company may be employed to act as agent in the taking of securities and the taking of principal and interest. There is also a provision giving the Governor in Council power to purchase stock and improvements on chattel mortgage. Under this Act loans to the amount of $152,000 have been made to seventy-one farmers.

The Act of 1919, "An Act to Provide Loans to Agriculturists Upon the Security of Farm Mortgages," provides for the appointment of a Board of three.—

(a) To lend money to agriculturists on the security of first mortgage on farm lands.

(b) To acquire, hold and dispose of real estate as may be required.

(c) To borrow money to carry out the objects of the Board, to hypothecate, pledge and mortgage its real property, and to sign bills, notes and contracts and for evidences of debt or securities for monies borrowed by the Board for the purposes aforesaid.

(*d*) To make provision for the placing of returned soldiers or other persons with farmers, in order that they may be instructed in farming, and

(*e*) To make loans to a farmer who desires to erect a dwelling house on his farm for the occupation of any person employed by him as a farmer.

The period of a loan can be for thirty years, the amount loaned not more than seventy per cent of the value of the property, the interest at a rate sufficient to pay the interest on the money borrowed and the cost of raising the money by the Provincial Treasurer. This latter Act, has, however, never been put into operation.

New Brunswick

The New Brunswick Legislature passed in 1912 "An Act to Encourage the Settlement of Farm Lands." This Act created a Farm Settlement Board with powers to purchase land in the Province suitable for farming, to improve the same, to erect houses and farm buildings thereon and to sell these lands to bona fide settlers. Settlers were required to pay 25 per cent of the purchase price in cash, where the property was valued at less than $1,000, and 35 per cent if valued at more than $1,000. The interest rate was fixed at 5 per cent. The purchase price must be paid at stated periods, the limit for final payment being ten years.

Under this Act, in the last five years, about fifty loans have been granted. At the end of 1922, $80,439.55 was outstanding in loans. At no time have the outstanding loans under this Act exceeded $130,000.

In April, 1923, a new Act was passed in the province of New Brunswick, known as the "Farmers' Relief Act." Its aim was to relieve farmers from financial embarrassment, to encourage agricultural development by providing for loans upon farm mortgages at reduced rates of interest. Under this Act, municipalities are authorized to borrow up to 75 per cent of the total value of the real estate in the municipality for the purpose of making loans to farmers residing within the municipality. A Farm Loan Board is authorized, consisting of three persons, two of whom may be members of the Municipal Council. This Board makes all necessary regulations regarding loans. The loan to the individual must not exceed 75 per cent of the value of the farm land owned by the borrower within the municipality; must be secured by a first mortgage and repayable by an amortization plan not exceeding thirty years. The maximum interest allowed is 6 per cent par annum.

Loans are made for the following purposes:—

(*a*) The discharge of liability incurred for the improvement of land used for agricultural purposes;

(*b*) The acquiring of land for agricultural purposes and the satisfaction of encumbrances thereon;

(*c*) The clearing and draining of land, the erection of farm buildings, the purchase of live stock and implements.

Money is raised under the provisions of the Municipality Debentures Act of the Province.

I have not been able to obtain information as to the number and amount of loans made under this Act.

Ontario

Three separate acts with respect to Rural Credit have been passed in the province of Ontario, all during the session of the Legislative Assembly of 1921. The first is entitled "An Act for the Promotion of Agricultural Development" (amended in 1923), the second, "An Act Respecting Short Term Farm Loans in Ontario" and the third, "An Act to Finance Agricultural Development."

Long Term

The first of these Acts provides for long term or mortgage credit, the second provides for short term personal credit, and the third provides special means by which the Treasurer of the Province may use savings funds in financing the other two Acts. The Acts are based on the legislation of the Province of Manitoba described later.

Capital Funds

Under the first Act, there is established a Board, to be known as the Agricultural Development Board, which consists of three persons appointed by the Lieutenant Governor in Council. This Board is a body corporate and has for its duty the promotion of agricultural development as provided in the Act. The Board, with the approval of the Lieutenant Governor is permitted to issue bonds to the amount of $500,000 in such denominations and such rate of interest as the Board itself may see proper. Provision is made for the purchase of these bonds by the Province of Ontario, the money for purchase being deposited with the Board for its own use. In addition to the above, with the approval of the Lieutenant Governor in Council, the Board is permitted from time to time to issue debentures in such denominations as it may deem advisable. These debentures are to be issued as mortgage bonds, that is, against the security of mortgages held by the Board. The money so raised may be used in the following manner:—

(*a*) Acquiring land for agricultural purposes;
(*b*) The erection of farm buildings essential to production;
(*c*) To pay off charges existing against land at the time of acquisition by the borrower under a will or by descent;
(*d*) To pay off encumbrances in which cases loans shall not exceed 50 per cent of the valuation;
(*e*) For the purpose of providing tile drainage;
(*f*) To purchase breeding live stock;
(*g*) To consolidate outstanding liabilities incurred for agricultural productive purposes.

The applicant for loans must submit evidence to the satisfaction of the Board;—

(*a*) That he is a British subject of at least twenty-one years of age, and has been resident in Canada for at least three years;
(*b*) That he has had at least three years' experience in farming and has displayed average ability and capacity;
(*c*) That he is of good character;
(*d*) That he is actually engaged or intends to engage upon the land upon the security of which the loan is to be made.

The limit to which a loan can be made is $12,000 and it must be secured by first mortgage upon lands suitable for agricultural purposes.

Provision is made for repayment in annual instalments of principal and interest sufficient to discharge the debt within a period not exceeding twenty years.

The expenses of the conduct of the Board, including salaries, are paid out of the consolidated revenue of the Province.

This Act has only been in operation for two years. Over 1,500 applications have been received for loans, of which 1,411 have been granted. The total amount of loans made up to October 31st, 1923, was $5,769,955.00.

The Ontario system of long term loans is distinguished from the American system in that the individual deals directly with the Board and not by means of a local association.

Short Term Farm Loan Associations

The second Act provides for short term loans. This scheme operates under the Agricultural Development Board, as does the scheme for long term loans. Under this scheme, local associations, known as Farm Loan Associations, are required. Any person resident within a described territory, which has been approved by the Board, and engaged in farming operations or agreeing to become so engaged within one year, is eligible for membership.

In order to form a local Farm Loan Association, certain provisions with regard to capital stock must be complied with, viz.:—

(*a*) Thirty members are necessary and each member must subscribe for one share at a par value of $100.00;

(*b*) One-half the amount subscribed by the members must be subscribed by the corporations of local municipalities in the territory where the Association is formed;

(*c*) An amount equal to that subscribed by the municipalities must be subscribed by the Ontario Government.

This arrangement for capitalization of the Local Association differs entirely from the American system.

Each member must pay in 10 per cent of the par value of his stock at the time of subscription and the balance when called for, the payments by municipal corporations and the Ontario Government being made in the same proportion. Provision is made for the combination of two or more municipalities under one organization.

The board of management consists of two directors appointed by the municipal corporations subscribing, two directors appointed by the Lieutenant Governor in Council; the subscribing members elect from among themselves a president, vice-president and one director, who, with the four previously named, constitute the board of management.

Under this Act, short term loans are made for one or more of the following purposes:

(*a*) Purchase of seed, feed, fertilizer and other supplies;

(*b*) Purchase of implements and machinery;

(*c*) Purchase of cattle, horses, sheep, pigs and poultry;

(*d*) Payment of cost of carrying on any farming, ranching, dairying or other agricultural operations;

(*e*) Payment of the cost of preparing land for cultivation;

(*f*) Fire or life insurance where required, in the opinion of the directors, as collateral security for a loan made for any of the above-mentioned purposes.

No loan is made to exceed $2,000.00.

The maximum rate of interest allowed is 7%, one-seventh of which goes to the local association for expenses.

Fifteen associations had been formed in Ontario up to October 31st, 1923, and 399 loans were made amounting to $310,875.00.

The capital required for carrying on the business of the association may be obtained in two ways:—

(*a*) The Treasurer of Ontario may, with the approval of the Lieutenant Governor in Council, make loans to the Board; and

(*b*) The Minister of Agriculture may, with the approval of the Lieutenant Governor in Council, enter into agreement and guarantees with banks, loan companies and other corporations for securing money for the purposes of the associations, and may fix interest rates and terms of repayment.

I doubt if this scheme will play a very large part in the business organization of the farmers of Ontario.

The third Act, to finance agricultural development, authorizes the Treasurer of Ontario to borrow money by means of deposits in any amounts from any person or corporation and to open offices for this purpose in such parts of Ontario as seem to him wise.

In so far as this Act affects agriculture, it provides that the money raised in this way may be available;—

(*a*) To make loans to members of associations under the Ontario Farm Loans Act; and

(*b*) To purchase bonds or debentures issued under the Agricultural Development Act.

By this Act, savings bank deposits are made available through the Agricultural Development Board for agricultural purposes.

It has resulted in a considerable share of the savings deposits in Ontario going to the Government.

Manitoba

In the Province of Manitoba, three Acts respecting Rural Credit have been passed and are now in operation. One of these, "An Act to Foster and Encourage Agricultural Development by Providing for Loans upon Farm Mortgages at Reduced Rates of Interest", is a long term mortgage scheme; the second, "An Act Respecting Rural Credits," provides machinery for the making of short term personal credit loans; and the third is entitled "An Act to Encourage Savings, to Authorize the Borrowing of Such Savings and the Issue of Securities Therefor."

Long Term

Under the first Act, there is established in the province a body corporate under the name of the Manitoba Farm Loans Association, to which, from the management point of view, is given all the general powers of a financial corporation.

The affairs of the Association are managed by a Board known as the Manitoba Farm Loan Board, consisting of five members appointed by the Government. Of these members, one, the Commissioner of Manitoba Farm Loans, is directly appointed by the Lieutenant Governor in Council and at pleasure, one may be nominated by the Union of Municipalities of the province and one by the Grain Growers' Association. The period of service is designated by the Lieutenant Governor in Council. All the expenses, including salaries, together with all other proper expenditure incurred by the Board, must be paid out of the funds of the association.

Capital Stock

The capital stock of the Association, which was originally $1,000,000, is now fixed by an amendment to the Act at $550,000, divided into 110,000 shares of five dollars each. These shares can only be owned by borrowers on farm loan mortgages under the provisions of the Act, and by His Majesty in the right of the Province. Every borrower must purchase capital stock of the Association equal to five per cent. of the value of the desired loan, the same to be paid in cash or deducted from the loan. The certificates of shares issued are not transferable, unless the property on which the mortgage is held is sold, in which case the shares may be transferred with the sale.

Under the Act, one-half the share capital of the Association is purchased by the Government, which also is authorized to advance to the Association an amount equal to the paid up capital of its members, the total not to exceed $550,000.

The rate of interest charged on loans made by the Association, which was originally 6 per cent, was fixed by an amendment to the Act in 1921, at 7 per cent per annum.

The amount of the loan must not exceed 50 per cent of the estimated value of the land mortgaged together with the value of the improvements upon the land, the appraisals being made on a valuation for agricultural purposes only.

Loans are made only for the following purposes:—

(*a*) The acquiring of land for agricultural purposes and the satisfaction of encumbrances on land used for such purposes;
(*b*) For the cleaning and draining of land;
(*c*) The erection of farm buildings;
(*d*) Purchase of live stock and implements;
(*e*) Discharge of liabilities incurred for the improvement and development of land used for agricultural purposes and any purpose calculated to increase land productiveness.

Loans are made only to those actively engaged or intending to engage in the cultivation of the land and the Board may require borrowers, if in their judgment they deem it necessary, to insure crops against damage by hail, storm, etc., in a company approved by the Association. Should any borrower at any time use the money loaned for purposes other than the purposes for which it was borrowed, the mortgage at once becomes due and payable.

Sale of Bonds

The Lieutenant Governor in Council is authorized to empower the Board, on behalf of the Association, to raise by the issue of bonds against first mortgages, a sum not to exceed twelve million dollars. The issue at any one time must not exceed 95 per cent of the value of the mortgages held as security. The rate of interest at which these bonds can be issued must not exceed 5 per cent per annum. These bonds are guaranteed as to principal and interest by the Government of the Province, and, in case of the Association not being able to meet interest charges, they become at once a direct charge upon the revenues of the Province.

Further, it is provided that, pending a sale of bonds by the Association, which have been authorized by the Lieutenant Governor in Council, the Province may advance or guarantee a loan to the Association at any bank for a sum not exceeding at any one time $1,000,000.

All the securities, including the capital shares issued under this Act, are free from all kinds of taxes other than federal taxation and the succession duties.

All mortgages are repaid on an amortization plan covered by 30 annual instalments, the debt to be extinguished in 30 years.

Up to the 31st December, 1923, approximately $3,000,000 had been loaned under this Act. There has been a great demand for further loans, but the Government did not feel like going further into the scheme for the present.

It is hardly necessary to point out that this plan, like the Saskatchewan plan, differs materially from the farm loan scheme in the United States. While the Farm Loan Association is a corporation for the purpose or doing business, all the money acquired is acquired through an arrangement with the Government and with Government guarantees, while the officers who manage it are

subject to the direct action of the Lieutenant Governor in Council. In reality, individuals receiving loans are receiving Government monies with all the disadvantages of the sense of close contact with the Government.

Short Term Loans

The second Act, The Rural Credits Act, is an Act authorizing the making of short term loans. The Act authorizes the organization of Rural Credit Societies in any part of the province. Such a society is organized on the basis of a petition presented to the Lieutenant Governor in Council, signed by not less than fifteen persons engaged in agriculture, setting out—

(*a*) the names, addresses, occupations, and lands owned or occupied by them;
(*b*) that the petitioners desire to organize a Rural Credit Society in a given locality within the Province;
(*c*) the name of the municipality or locality which is to be the place of business;
(*d*) the proposed name of the society;
(*e*) the amount of capital stock and the number of shares into which the stock is divided with the amount paid on each subscription;
(*f*) the names of not less than three nor more than seven of the subscribers who shall be provisional directors of the society.

The Lieutenant Governor in Council may then issue letters patent, incorporating the society with the prescribed powers under the Act, after which the organization of the society can be completed.

The society is not permitted to commence business untill it has received subscriptions in capital stock from at least 35 persons engaged in farming of $100 each and of which not less than 25 per cent has been paid.

The Government of the Province is authorized to subscribe an amount equal to one-half of the total amount subscribed by the individual shareholders, the amount to be paid in in like proportion to the individuals. The Government may borrow $500,000 on debentures for this purpose. Any municipal corporation or combination of two or more municipalities may also subscribe an amount equal to that subscribed by the Government of the Province. The municipalities subscribing may issue debentures for the purpose of paying their subscription.

The business management of each society is vested in a board of directors composed of nine members, three elected annually by the individual subscribers, three appointed by the council or councils of the municipalities subscribing to the capital stock and three by the Lieutenant Governor in Council, each to serve for three years. It is necessary that at least one of the directors shall be a graduate of the Manitoba Agricultural College, or otherwise specially qualified in agriculture.

The officers of the society are appointed by the directors and registered by the Provincial Secretary and all the subscribing municipalities in the usual way. The secretary is the only paid officer and he may not be a member of the society, but is appointed because of his suitability for the work. The annual meeting is called for once a year.

The objects of the Rural Credit Societies organized under the Act are:—

(*a*) To procure short term loans for members for paying the cost of farm operations of all kinds and increasing the production of farm products;
  (1) and, particularly, for purchase of seed, feed and other supplies;
  (2) purchase of implements and machinery;
  (3) purchase of cows, hogs, sheep, pigs and other animals;

(4) payment of the cost of carrying on any farming, ranching, dairying or other like operation;
(5) payment of the cost of preparing land for cultivation;
(6) payment of not more than one-half the cost of erecting silos.

(*b*) To act as agents for members in purchasing supplies and selling products;

(*c*) To promote co-operation for the improvement of conditions of farm life and to extend its operation to all residents of the district.

The moneys loaned under the Act are arranged for either with a chartered bank or with private individuals. Loans are made on a note signed by the applicant, approved by the directors and endorsed by the secretary, on behalf of the society, which thereby becomes responsible to the extent of the assets of the society, in case of default. The rate of interest is fixed so as not to exceed 7 per cent per annum, of which 1/7 is paid to the local association for the purposes of the business of the society, so that only 6 per cent is paid to the lender. All loans terminate on the 31st day of December of the year in which the loan is made, but application for renewal for one year beyond that date is admissible, provided the loan was made for purposes not productive within a year.

Under an amendment to the Act in 1923, the Province is authorized to lend to any society from the treasury, "to the extent of, but not exceeding, twenty times the paid up capital and surplus assets of such society, provided that no society shall incur liabilities, whether direct or contingent, in excess of the amount of its capital and surplus assets."

As security for the loan, so far as the individual is concerned, all animals, machinery, or goods of any kind purchased with the proceeds of the loan, together with the offspring of such animals and crops or any products produced as the result of the loan are subject to lien without documentary specification.

For default in payment or dishonest practices on the part of the borrower, there are very rigid enactments.

The capital stock of any society must be invested in Government bonds or bonds guaranteed by the Government and all the income derived must be paid into the society to be applied:—

(*a*) in payment of the necessary expenses of the society;
(*b*) in payment of dividends on the stock of not more than 6 per cent;
(*c*) in accumulating a reserve which may, in the discretion of the directors, be invested in the same way as the capital stock.

Over and above all the societies there is a supervisor appointed by the Lieutenant Governor in Council, known as the Supervisor of Rural Credit Societies. His duties are defined by the Lieutenant Governor in Council.

In 1923, an investigation of the working of these societies was authorized by the Government and a report made upon them by Professor Jackman and Mr. Collier. The report was very condemnatory of the handling of the business of the societies and indicated the possibility of a very large loss to the Government. Approximately $3,000,000 is outstanding in loans made under this system of which at least three-quarters are renewals of loans with outstanding interest charges of approximately $30,000.

The Act originally did not place a limit to the borrowings, the result being that some individuals have received very large loans. Amendments have since been passed, however, restricting loans to $2,000.

The third Act, "An Act to Encourage Savings, to Authorize the Borrowing of Such Savings and the Issue of Securities Therefor,", is similar to the corresponding Act in Ontario.

Saskatchewan

A Long Term or Mortgage Credit plan has been in operation in the province of Saskatchewan for some years. It is worked under an Act named "The Saskatchewan Farm Loans Act." The Act is administered by a Board called the Saskatchewan Farm Loan Board, consisting of one commissioner and two other members appointed by the Lieutenant Governor in Council. The Board is a corporation and, while receiving its moneys from the Government, works independently.

The Board has power—

(*a*) to lend money on the security of farm mortgages;

(*b*) to invest disposable funds by depositing same with any chartered bank, or in any other manner in which the trustees are permitted by law to invest trust funds;

(*c*) to acquire and hold real estate for the purposes of the Board and to dispose thereof when no longer required for such purposes;

(*d*) to borrow money as required for the purposes of the Board and to perform such transactions by way of security as are necessary;

(*e*) to do all the necessary and incidental business resulting from the operation of a money lending agency on farm property.

The Farm Loan Commissioner holds office for ten years, unless removed for cause as the result of action in the Legislative Assembly. The other two members hold office during the pleasure of the Lieutenant Governor in Council.

No loan is permitted excepting on the security of a first mortgage on farm lands situated within the Province. Encumbrances, however, may be upon the land in the nature of legal priorities under the laws of the province.

Loans are made for the following fixed purposes:—

(1) For permanent improvements to the property mortgaged, which, in the opinion of the Board, will assist in the productive development of the property;

(2) Payment of liabilities which, in the opinion of the Board, have been incurred for any of the above purposes;

(3) In special cases and under special conditions for the cultivation of land for agricultural purposes.

No loan is made for an amount greater than 50 per cent of the Board's valuation of the security offered.

Loans are made for a term of 30 years and are payable by amortization.

The rate of interest charged is to be sufficient to pay the interest on and the cost of raising the money as well as the expenses of conducting the business of the Board and other incidental expenses.

The working capital necessary is advanced from time to time by the Provincial Treasurer under the authority of the Lieutenant Governor in Council. The total sum permitted to be so raised under the Act is $10,000,000, the securities used for raising it being Provincial securities. The term of years and the rate of interest to be paid by the Province is left to the determination of the Lieutenant Governor in Council.

The amount of advances made by the Provincial Treasurer is limited by the amount of the mortgages held by the Board and hypothecated to the Provincial Treasurer as security for the advance.

The Board is authorized, pending the disposing of securities, to borrow from any bank or corporation with the approval of the Lieutenant Governor in Council.

In the working of the Act, the Government has not authorized the selling of debentures at a rate greater than 5 per cent and has fixed the rate of interest for loans at 6½ per cent. The Government charges the Board 5¼ interest for the money, ¼ being assumed to be sufficient to cover the expenses of sale and other incidental expenses to the department. The Board has thus a margin of 1¼ per cent to cover expenses of administration and possible losses. This is regarded by the Farm Loan Board of Saskatchewan as sufficient for the purpose.

Up to December 31st, 1923, approximately $9,000,000 was loaned out under the scheme.

It will be seen, therefore, that in Saskatchewan, while the money is raised directly on the credit of the Province, it is passed over to a Board which is a separate corporation, through which all the business is handled. Further, the Saskatchewan plan does not use the local association in any way, so that the individual borrower comes in direct contact with the Board. The relation of the borrower to the Government, therefore, is much nearer than is the borrower to the Government under the American farm loan scheme and the plan resembles more closely the plan recently inaugurated by the state of Minnesota.

Most of the loans were made prior to 1922. The difficulty of securing money at 5 per cent has retarded the growth of the scheme.

Alberta

There are two Acts on the statute books of the Province of Alberta, dealing with rural credit, one entitled "An Act to Foster and Encourage Agricultural Development by Means of Standard Forms of Investment upon Farm Mortgage and the Equalization of Rates of Interest." It is cited as the "Alberta Farm Loan Act." The other, entitled "An Act Respecting Co-operative Credit" is cited as the "Alberta Co-operative Credit Act." The first of these is to provide, as its title indicates, Long Term or Mortgage Credit; the second is intended to provide Short Term or Personal Credit.

Long Term Loans

The Alberta Farm Loan Act, which was passed in 1917, is, in its general outline and purpose, much like the corresponding Act in Manitoba. As it has never been put into operation, I do not think it necessary to go into a detailed description.

Provision is made for the advancing of money by the Government to a body known as the Alberta Farm Loan Board, a body incorporated for the purpose of making farm loans. The limit of the loan is fixed at 40 per cent of the appraised value of the land offered for security calculated on its productiveness as farm land, the maximum amount, however, not to exceed $5,000.

The purposes for which a loan is made are clearly defined and are related entirely to farm production. Provision is made for the issuing of bonds to be known as the Alberta Farm Loan Bonds, the same being unconditionally guaranteed by the Government of the Province. The mortgages are to be repaid through the usual amortization scheme, covering a period of thirty years. The rate of interest is not fixed. It must be sufficient to pay the interest on the bonds and to cover the current expenses of the organization.

Short Term Loans

The Act respecting co-operative credit in the Province of Alberta is also similar to those in the other Provinces of Canada. It provides for the organization of Co-operative Credit Societies in the Province. A Co-operative Credit

Society can be organized on the presentation of a petition to the Lieutenant Governor in Council of not less than fifteen persons, who are engaged in farming operations and who subscribe for stock in the society at par value to the amount of not less than $1,500, of which not less than 20 per cent must have been paid up, the balance to be covered by the subscriber's promissory note payable to the society at 6 per cent interest. The society, however, cannot commence business until there are thirty members with subscribed stock equivalent to $3,000, being paid under the same conditions as above.

After the society has become duly incorporated, an additional 20 per cent of the stock becomes due on the following first day of January and so on in each successive year, until the full value of the stock has been paid up.

The society is organized to exercise its function in a specific district.

The management of the society is vested in a board of directors, four of whom must be elected at the first meeting and annually thereafter by the subscribers, three of whom are named by the Provincial Treasurer and one by the municipality giving a guarantee to the society.

Provision is made in the Act for the guaranteeing of the securities, obligations and financial undertakings of any society by the Lieutenant Governor in Council. Further, the Council of any municipality in the Province may also guarantee the securities, obligations, or financial undertakings of any society, for an amount equal to one-half the total amount of stock subscribed by the shareholders. On assuming a guarantee for an amount of money to the society, the municipality is permitted to advance the money out of the general funds of the municipality without taking a vote of the rate-payers.

All the societies under the Act come under definite regulations and by-laws approved by the Lieutenant Governor in Council.

The objects of the Co-operative Credit Societies are:—

(1) to procure short term loans for its members for paying the cost of farming operations of all kinds and increasing the production of farm products;
- (*a*) the purchase of seed, feed and other farm supplies;
- (*b*) the purchase of implements and machinery;
- (*c*) the purchase of cows, horses, sheep and other live stock;
- (*d*) payment of the cost of carrying on any farming, ranching, stock raising, dairying and other operations;
- (*e*) payment of the cost of preparing for cultivation;

(2) to act as agent for the members for purchasing goods, chattels, effects, stock, grain, coal, wood, lumber, merchandise and any other article or commodity required by subscribers and in selling any products produced by subscribers and in placing hail and fire isurance;

(3) to promote co-operation among its members for the improvement of conditions of farm life.

Loans are made only to members of the society and at a rate of interest not exceeding 7½ per cent, of which one-half of one per cent is returned to the society for the purpose of meeting the expenses of the society.

All applications for loans must be accompanied by a statement of assets and liabilities and the endorsement of the local society. Before the monies are advanced, the borrower must sign a note for the amount of the money to be advanced, together with the interest on it, which, being endorsed by the society, can be used to obtain money from any bank or company approved by the Lieutenant Governor in Council, by whom, as stated above, it is also guaranteed.

Provision is made in the event of the borrower not being able to pay the amount at the date of maturity, to renew the note for one year, provided the

purposes for which the loan was granted are not fully productive within one year. Should it become necessary because of the default of the borrower to seize any property of a borrower, the secretary-treasurer may act as bailiff and seize and sell the property without any other authority than that of the directors of the society.

Provision is also made for the retirement of a shareholder on payment of his obligation.

Any profits accruing to the society from interest or other sources are applied:—

(*a*) in the payment of the necessary expenses of the society;
(*b*) in the payment of dividends on paid up stock held by subscribers of not more than 6 per cent per annum; and
(*c*) in accumulating a reserve which may be invested in the same manner as the paid up capital.

During the year 1923, $830,560.00 was advanced to these societies, of which $245,712.00 was outstanding at December 31st, 1923.

In some of the provinces of Canada, there are, in addition to the foregoing, special Acts dealing with special phases of agriculture. I have not deemed them of such importance as to require description for this report.

Summary—Canadian Provinces

There are no available statistics regarding the amount of farm mortgage loans in Canada so that it is not possible to state the ratio of loans made under Provincial Government Organizations to the whole mortgage indebtedness of the country. The total loans made through the Provincial machinery, just described, is about $23,000,000, an amount probably not more than 10 per cent of the whole, and certainly not enough to regulate interest rates on mortgages, but enough to prove the value to the farmers of the Amortization Principle. It is an unfortunate fact that most of the organizations described have for the moment ceased to function because of the difficulty of obtaining money at sufficiently low rate of interest, and because of the danger of embarrassing the Provinces by increasing too greatly their bonded indebtedness.

One other matter deserves special mention. In all the Provinces the Boards of Management have had difficulty in overcoming a disposition on the part of a considerable proportion of borrowers to regard lightly obligations to the Government. "It is Government money, they can wait" seems to be altogether too common an idea. The Administration Boards as well as ministers in charge of the Provincial Treasuries have had to call attention repeatedly, to this attitude of mind. It is being overcome but only by the use of rigid and decisive means. In the United States the same difficulty was encountered at first. It has been largely overcome by educational methods, by selling the bonds of the Land Banks in the districts where the borrowers themselves lived, thus showing to the borrowers that the money loaned was also borrowed in their interest, and where necessary by a rigid enforcement of the regulations regarding repayments.

With regard to interest rates in Canada there is little to add to the information brought out by the special committee of the House of Commons last year. The report of the Alberta Commissioner, made in 1922, after a careful study of that Province stated that the rate for short term loans from the Chartered Banks varied from 8 to 10 per cent "according to the condition of the district and the degree of competition present." The rate of interest on mortgages has been estimated to be 8 to 9 per cent the variation being due to similar causes.

These figures would probably hold for Western Canada as a whole. In the Eastern Provinces the interest charges would be lighter. The aim of the Provincial Credit Organizations has been to lighten this burden by fixing rates varying from 6 to 7 per cent. They have succeeded only in proportion to the business done as the total loans have not been enough to afford effective competition. It remains for consideration whether agriculture can prosper under such charges.

SECTION VI

CONSIDERATION OF METHODS IN RELATION TO CANADIAN CONDITIONS

Long Term Mortgage Credit

Even a casual study of the foregoing description of the various methods of dealing with the problem of long term or mortgage credit will show that, with variations in detail, three methods have been employed:

(1) The private investor, under which should be included the private corporation restricted only by common law conditions;
(2) Public corporations working under special legal restrictions with or without government support—
  (*a*) conducting business in the interest of the borrowers:
  (*b*) conducting business in the interest of lenders; both within restrictions fixed by law;
(3) Direct government loans.

With regard to (1), it is probably true that a very large share of the mortgage business in every country is in their hands. Under this I would include the private individual who loans directly himself and companies organized under general laws, such as insurance companies and corporations without legal restrictions with respect to interest charges. I think it may be truthfully said that wherever the mortgage business has been left entirely in the hands of persons or companies operating in this way, the claim has ultimately been made that rates of interest have remained high. So far as I am aware, no country in the western world continues to leave the solution of the farm mortgage problem entirely in the hands of organizations developed in such a way. In times of special prosperity, things may work out all right under such a plan, but in times of depression, in nearly every country in the world other methods have always been resorted to, at least within the last century. As has already been pointed out, it was the demand for more reasonable interest and government supervision that led to the whole scheme of Farm Mortgage Bonds in Europe, which has since been copied in the United States and in the Provinces of Canada. It should be stated, however, that those who claim that at the present time there is no necessity for government co-operation and that claim is made everywhere on the American continent—base their claim on the belief that competition in money lending will sufficiently regulate the business.

(2) (*a*) In every civilized country, corporations have been developed of the second type. The Landschaft in Germany, for example, is a public corporation organized under special legislation with definite restrictions upon its business, which aims to so improve and regulate farm mortgage security, so as to be able to secure cheaper rates of interest and to conduct its business solely in the interest of the borrowers.

There is no declared purpose in the foundation of the Landschaft to force people to lend money at unremunerative rates; the express purpose was to so liquefy the mortgage as an investment, to give it such backing, that as a security, it would rank in its call for money with the best kind of public investment. There is absolutely no question that they succeeded in doing this and by the institution of Long Term Mortgage Bonds, secured for the owners of farm lands loans in competition with governments and municipalities and at rates of interest equal to that which they obtained. The persons so investing

invested on their own initiative, because they were convinced of the value of the security offered. The only public assistance granted to them was supervision, so as to give public confidence as to the soundness and honesty of their methods of carrying on their business.

Under (2) come such organizations as those authorized in Great Britain under the older Acts which are described earlier in this report. For example, the Land Improvements Company Act of 1853 gave to the Company authority to carry on business in land mortgages for long terms of years in connection with definite operations for the improvement of agriculture. In doing so, the British Government put the stamp of its approval upon the undertakings and, in order to give public confidence, insisted that every such undertaking should be subject to proper expert inspection and carried out by well established methods. In return for this approval, which, while it may appear to have been a restriction, in reality gave security to the undertaking, they made a rate of interest greater than 5 per cent illegal. The fact that all the monies have since been forthcoming to carry out the projects entered into by this Company, which is still operating on a large scale, shows that the regulation did really not work out as a restriction and that in all probability investors were glad of the opportunity to place their money in investments made secure by the regulations of the Act.

The Crédit Foncier of France is an organization of a similar character. The business is being conducted really in the interests of investors. It has been given a practical monopoly in France of public mortgage business and received, in addition, definite support from the Government in getting started. In return for the privileges granted and for the assistance given, the Government fixed a definite limit of interest charges to be made on mortgages, namely, not to be greater than six-tenths of one per cent above the rate at which bonds for the purpose could be sold to the public. The French Government does not guarantee these bonds, but the supervision and control, which have been exercised by Government experts have stabilized security and given such confidence to the French investor that he is willing to accept the rates of interest offered. In this case, inspection and supervision were established because it was demanded by the public and because without it, security of land mortgages could not be established in the minds of the public so as to give the necessary confidence to secure rates of interest commensurate with the security. It was firmly believed that private enterprise did not offer the necessary competition to give agriculture, because of its lack of organization, interest rates commensurate with the security, and that by organization the security could be so improved as to attract the attention of the investing public.

With regard to institutions organized under the Farm Loan Board of the United States, it has already been pointed out that, the Federal Land Banks function somewhat as the Landschaft in Germany, while the Joint Stock Banks of the same system resemble the Crédit Foncier. That is to say, they are institutions organized under public control and supervision in such a way as to give confidence to the investing public in the security offered for loans, but, at the same time doing business in such a way that the profits beyond a guaranteed return to lenders go to the benefit of the institutions and, therefore, of the organized borrowers in the case of the Federal Land Banks but to the investors in the case of the Joint Stock Banks.

While the United States Government put behind the Federal Land Banks $9,000,000 free from interest charge for a period of years, nevertheless, the policy pursued has been to bring them to a state of independence and to make agriculture, through them, guarantee its own financial well-being.

Already, these institutions have returned to the United States Government three-quarters of the capital originally granted to them and are now financing

the whole administration out of their own funds without any charge upon the public treasury. The Federal Farm Loan Board continues its supervision and care in the interest of the investing public. A definite restriction is placed by law upon interest charges and to assist them in living within these charges, a national selling agency has been authorized. The only other special privilege which they have in competition with other lending institutions is the freedom from the taxation of their bonds, a much discussed and controversial subject. With respect to that, I may say that I heard the principle of tax-free bonds universally condemned in the United States by all shades of opinion, but the Federal Farm Loan Board maintained that so long as state governments and municipalities, including towns and cities, had their bonds free from taxation, it was only fair that the bonds issued on farm mortgages should also be free from taxation. I think there can be no question that the issuing of tax-free bonds is working out enormously to the benefit of the well-to-do. Without question, also, it has been a benefit to the municipalities, and it has greatly assisted the Federal Land Banks in the sale of their bonds.

(3) The third method previously described is that of direct government loans. This has not been practised to any great extent, so far as my knowledge goes, elsewhere than on the American continent and in the British Dominions. In Great Britain, the New Act permits governments loans for a short period of years and is intended to give direct assistance to persons who, having bought lands on the basis of the stability of certain legislation, suffered because that legislation was repealed.

In most of the States of the United States, where loans are being made by the State governments, they are being made either directly or indirectly from the State Treasury. Even where bonds are only guaranteed by the governments, the officers administering the funds derived from them are State officers. The same is true, in the main, of what is being done in the Provinces of Canada.

There can be no question, I think, that in the administration of institutions dealing directly with governments, the dangers of political interference and of consequent loss to the public treasury is very great. Even in the United States, the work of the Farm Loan Board, removed as it is from the direct control of the Government, has suffered because men in public life have deemed it to be to their political advantage to speak critically of its policies without making an effort to get a knowledge of the facts.

When we come to consider the question of long term credit from the point of view of Canada as a whole, we are faced with the fact that no organization of a truly Canadian character has been developed. It is freely stated by those engaged in the farm mortgage business that none is necessary, that there is sufficient competition already in this business to take care of all the requirements of the country.

It is further claimed that the restrictions by way of taxes and priorities over mortgages have become so great in some, at least, of the Provinces of Canada that freedom of action is practically denied mortgage companies in carrying on their business. It was even suggested to me that with greater freedom of action and freedom from restrictions, the mortgage business of the country could be done at one to two per cent less cost than at present. Whether this be true or not, it is difficult to exactly determine. I have not yet found any lender who was willing to commit himself definitely to an agreement that, if restrictions were removed, prices on mortgages would be reduced. My judgment is, this is a matter of such serious importance that a conference between representatives of the mortgage organizations of Canada and the governments responsible for the legal limitations complained of and the leaders of the farmers' organizations in the country should be held to discuss the whole

matter and to see whether some scheme could not be devised that would remove the suspicion and doubt that have arisen in connection with it.

I think it cannot be denied, referring especially to Western Canada, that the mortgage business is conducted in an exceedingly expensive manner and that reasonable co-operation between loan companies might greatly reduce the present cost of administration. The Federal Land Banks of the United States are to-day conducting their business on a margin of one per cent and are setting aside out of that a considerable margin for possible losses. Figures are not available for Canada as to the cost of administering the farm mortgage business, but I think there can be no doubt that it is much beyond these figures.

Further, there is without question, a considerable number of farmers in Canada, who, following the urgent advice given during the war and at the close of the war to continue production, find themselves, due to the heavy deflation, in the same position that farmers found themselves in England and the United States, and for whom some plan of amortization of loans is absolutely necessary, if they are to be able to continue on the land. This demand is being met to-day only in a very limited degree. It is very doubtful whether the Provinces alone can continue to develop long term mortgage business without taking risks greater than they should take in connection with their own financing.

Now, while I am firmly of the opinion expressed by Sir Horace Plunkett and already quoted, that agriculture must be a self supporting industry, I believe with equal confidence that there is a need in Canada for some organization co-ordinating the credit which the farmer has to offer in such a way as to make it more attractive to the man who wishes to loan his money at a reasonable rate of interest with proper security. Every country in the civilized world has ultimately been compelled to take such a step. When it is remembered that two per cent, under the ordinary amortization scheme, will amortize a farm mortgage in 20 years, therefore, a reduction of two per cent in interest is equivalent in 35 years to the capital debt, the significance of the foregoing statement will be apparent.

Short Term Loans

With regard to short term loans, as already pointed out, two things have been aimed at—

(1) to organize the security offered for them so as to secure more reasonable rates of interest, and

(2) to increase the time of the loan, consistent with the seasonal production of agriculture.

It is quite apparent from the facts already related that three methods have been employed in securing these aims—

(1) the better regulation of the security offered by means of co-operation with either limited or unlimited liability and government supervision;

(2) by direct government assistance;

(3) by a combination of the above.

With regard to (1), on the European continent, generally, the better organization of security so as to enable agriculture to be self-sustaining is the aim of the co-operative credit movement.

The Intermediate Credit Banks of the United States have been organized with the same idea in mind. They have been granted public organization and supervision and a portion of their capitalization, in order to make it possible that all charges shall ultimately be borne by the business in the interest of which they were instituted. A special regulation in the Act of incorporation prohibits the United States Government from guaranteeing any of their obligations.

With regard to (2), direct government assistance, broadly speaking, all State loans in the United States are being made through organizations having direct contact with the government, although in some of these, the principle of establishing local co-operative associations is followed.

In so far as short term loans are made under the Australian and New Zealand organizations, I think they may be considered as direct government loans.

(3) In many countries, government assistance and co-operation are combined. In France, as has been pointed out earlier in this report, the Bank of France, functioning as a Bank of Issue, is compelled to make annual grants for the support of the co-operative banking institutions. Theoretically, these advances are made by way of a loan, but I do not think that the possibility of their return is seriously contemplated.

In a limited sense, the Federal Intermediate Banks would come under this classification, as the capital of the banks has been provided by the Federal Government. On the other hand, these institutions are required to pay interest on the money borrowed and, further, a rather remarkable provision, that while the Government refuses to guarantee the securities of the banks, all the profits beyond a certain amount must be returned to the United States Treasury as a franchise tax for the right of doing business or to be applied to the United States debt.

The organizations in Canada, in the main, come under this classification, that is to say, they are based on the organization of co-operation, but are directed and supported by the Government.

With regard to the organization of short term credit in Canada, I think there can be no doubt that some reorganization in connection with it must take place. I do not wish any statement I make to be taken as a criticism of the operation of the banks in Canada. That is not my business. I have no doubt that the statement made by bank organizations as to the losses they have had in the last few years are absolutely true, but I think it is equally true that, excepting in the case of well established farmers, the short term bank loan at present is not sufficient to carry the farmer's operations. Many of the leading bankers of the country admit this to be so. The General Manager of the Canadian Bank of Commerce in the following statement recently made in an address, shows that the great bankers of the country are cognizant of the problem with which agriculture is confronted:—

> "The discussion of the problem of financing the operations of Canadian farmers, especially in the West, occupied much of the time of the last session of Parliament, much evidence was submitted, but as yet no practical scheme seems to have been evolved. Unquestionably, in an ordinary industry, if the capital already invested cannot be profitably employed it is useless to look for more. But the importance of agriculture as a basic industry and the plight of so many farmers during recent years force the problem to be approached from no ordinary angle. During the discussion in Parliament this Bank suggested that a possible solution might be found in money borrowed by way of the issue of long term securities, the marginal risk to be carried by the issue of stock of a corporation to be formed for the purpose, the money for which would be found in such proportion as might be agreed upon by the Dominion Government, the Governments of the various Provinces interested, the banks and other large corporate interests who share in financing the farmers. The details might prove difficult to work out, but the plan of financing such requirements by long term securities, rather than from moneys repayable on demand, is unquestionably sound from the economic point of view."

There can be no doubt that the establishment in Canada of a Short Term Credit System based on the formation of Local Associations for co-operative purposes would be much more difficult than in most European countries, or even in the United States. The uniformity of the population and the permanency of family relations create in those countries the exact conditions under which co-operative methods flourish. Yet, I think that experience has already shown that a sound plan along these lines could be worked out under proper supervision and control. It would be a definite step toward the realization ultimately of financial control and, therefore, independence by the farmers themselves. Discounting facilities would have to be provided by some central agency, either a corporation specially created, as suggested by the President of the Bank of Commerce, or organized and to some extent, at least, capitalized by the Government, as in the United States and in France. This would be absolutely necessary, unless, through the organization of Provincial Savings Banks, sufficient money could be found, a very doubtful contingency for some years to come.

One word in conclusion—It ought to be clear to anybody that Canada is slowly passing through the stage in her agricultural development that the United States was passing through some years ago, viz., the best lands of the country have been taken up, wealth accumulating from the rise in land prices will, in a large measure cease, and land mortgages based on growing prices will be harder to carry. I have no doubt that competition from the United States so far as cereals are concerned will grow less and that, in spite of high tariffs, the United States must buy from us eventually, but competition from a revived Europe and other parts of the world will increase. If we desire to have Canadian agriculture maintain its place in world competition in the future, the time to begin to plan for the rational administration both of its finances and its scientific development is the present.

Should the Government deem it wise, during the present session of Parliament. to take action with regard to the establishment of a plan for the development of long term and short term credit, I would respectfully urge that an intensive study of this problem be continued. If it is considered wiser to wait for further maturity of opinion on the subject, then I would respectfully suggest that, as the period given for the preparation of this report has hardly been sufficient to study the problem from the point of view of the communities seeking benefit, that I be permitted to continue the study of the problem in the interim.